THE COOK REPORT

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THE WORLD AS IT IS

After a two-year pandemic that is still very much with us, world events continue to find new ways to keep us on our toes. Russia's invasion of Ukraine in February 2022 is no exception, reminding us that while there are some things we can't control, we do control how we react to them.

In our previous article we compared markets and the broader economy to a four-year-old on a sugar high, which continues to be an apt metaphor. The high is over and we are now in the tantrum stage. Fortunately, the current situation is like any other series of short-term events as they relate to your investment values and goals—they are noise that should not cause you to deviate from your established plans and deeply-held principles.

In this edition of *The Cook Report*, we explore the recent volatility in markets through two lenses. The first is the beginning of the Federal Reserve's monetary tightening cycle, which was telegraphed and expected. The second is how the war in Ukraine has sped up some global economic trends that may exacerbate the tantrum and prolong the return to a sugar-free norm.

TIGHTENING BEGINS

At its March 2022 meeting, the Federal Reserve's Federal Open Markets Committee (FOMC) voted to raise interest rates by 0.25% to a range of 0.25–0.50%. The move was expected and nearly unanimous, with the one dissenting vote advocating for a larger 0.50% increase.

In its statement following the meeting, the FOMC laid the groundwork for further rate increases in 2022 and increased its inflation forecast to 4.1%. The committee's outlook for inflation in 2023 remains above the 2% target at 2.6%, meaning higher inflation is expected to continue. Soon after the meeting, some FOMC members in public comments laid the groundwork for larger increases at coming meetings.

The FOMC did not begin a program to reduce the Fed's balance sheet but indicated that such a program would begin soon.

The Fed's moves are an admission that inflation is more than transitory and that monetary stimulus measures taken to fight the pandemic are no longer necessary. As further tightening occurs, be prepared for a slowdown in areas such as employment and consumer spending.

REORDERING THE GLOBAL ECONOMY

In a vacuum, the Fed's monetary tightening might be the cure to tame inflation and allow for a soft landing to a healthier non-stimulus driven economy. Unfortunately, there are other factors that influence inflation and broader economic trends for which the Fed has little influence.

"CURRENT TRENDS POINT TOWARD A REORDERING DRIVEN PRIMARILY BY BLOCKS OF LIKE-MINDED COUNTRIES..."

Notably, Russia's invasion of Ukraine has accelerated the trend of economic decoupling between countries. The increasingly integrated global economy that was envisioned as recently as China's 2001 accession to the World Trade Organization is an idea in rapid decline. Current trends point toward a reordering driven primarily by blocks of like-minded countries—such as liberal democracies—trading with each other to the exclusion of countries with rival philosophies.

INSIDE THIS ISSUE:

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THE WORLD AS IT IS (cont.)

Such decoupling has been in process for many years and will take additional time to be further realized, if it ever is completely. Trade will remain a key component of any healthy system, but trade partners will be more heavily scrutinized. Companies are re-ordering supply chains to avoid over-reliance on any one supplier (see the first article in the Clippings section below). Some countries, notably China, are pursuing policies aimed at producing everything they need within their borders, essentially shielding themselves from global influences. Over time, the post-World War II order that the U.S. helped build could look very different.

STAY ROOTED

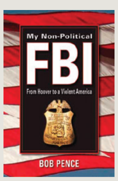
The long-term costs of a reordered trading system will emerge over time and may be significant. For consumer-driven economies like the U.S., inflationary pressures will remain as companies invest in new plants and equipment and move operations to areas with higher wage demands—among other factors.

"AS INVESTORS, THE BEST WAY TO MEET THESE CHALLENGES REMAINS TO LIVE BENEATH YOUR MEANS AND STAY ROOTED IN THE VALUES AND PRINCIPLES YOU HAVE DEVELOPED OVER TIME."

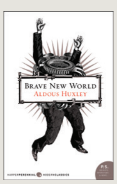
As investors, the best way to meet these challenges remains to live beneath your means and stay rooted in the values and principles you have developed over time. While market fluctuations during times of uncertainty such as these can be nerve wracking, this is no time to abandon your process. Any tweaks should be small and driven by clear analysis. Again, don't capitulate to the four-year-old's tantrum!

As always, we appreciate the opportunity to assist as you implement your financial and investing goals. Happy Spring!

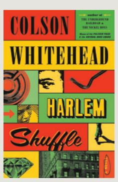
READER'S CORNER



My Non-Political FBI/From Hoover to a Violent America, by Bob Pence (Fulcrum Group, Colorado, 2020) written by a retired senior FBI executive with great insights into the development of the FBI from J. Edgar Hoover to the present.



Brave New World, by Aldous Huxley (Harper & Brothers, New York, 1932) is a book many of us read as college students and young adults, which has many new dimensions and insights in reading it today. Frankly, it was like reading it for the first time!



Harlem Shuffle, by Colson Whitehead (Doubleday, New York, 2021) "...plays out in a beautifully recreated New York City of the early 1960s. It's a family saga masquerading as a crime novel, a hilarious morality play, a social novel about race and power, and ultimately a love letter to Harlem."

IN THE NEWS

- "How Sanctions on Russia, War in Ukraine and Covid in China are Transforming Global Supply Chains," by Christopher Mims (*The Wall Street Journal*, March 26, 2022) offers an in-depth primer on the ongoing changes to global supply chains.
- "The Two Things to Do When the Stock Market Gets Crazy," by Jason Zweig (*The Wall Street Journal*, January 28, 2022) advises knowing yourself and that the long-term investor must be prepared for periodic uncertainty.
- "Tax Day is Coming. Here's How to Cope With the IRS," by Laura Saunders (*The Wall Street Journal*, March 25, 2022) offers six tips regarding the tax-collector's intimidating systems, especially due to a pandemic induced backlog and system issues (phone and online).
- "The Future of Everything/Work" (*The Wall Street Journal*, January 2022) is a fascinating insight into the changes in how we work, influenced by the pandemic and technology.
- "The Future of Everything/The Well-Being Issue" (*The Wall Street Journal*, January 8, 2022) is an engaging summary of current research in what it takes to sustain a healthy lifestyle.