Kenneth A. Gilpin CFP

Sound Investments Inc.

1st Quarter 2023

DJIA 33274.1 S&P 500 4109.33 Nasdaq 12,129.4

Summary

Are We in A Recession?

No, but things can change! .... There is no clear answer ..... Most econmist see a slowing economy that will lead to a shallow recession. They point to the Federal Reserve Bank which continues to raise interest rates to slow the economy and reduce inflation.

The Longer View

Blackrock, the world's largest money manager, expects inflation to cool but stay persistently higher than the Central Banks target rate of 2%. Blackrock's reasoning is that a progressively aging population results in a reduced work-force, which increases labor bargaining power and hence inflation. This may result in working age people getting a larger slice of the economic pie. (see article on Millennials)

At this time we are slowly starting to invest in companies with good Earnings and Strong Balance Sheets

This investment letter is mailed quarterly to our clients and friends.

Shifting Expectations

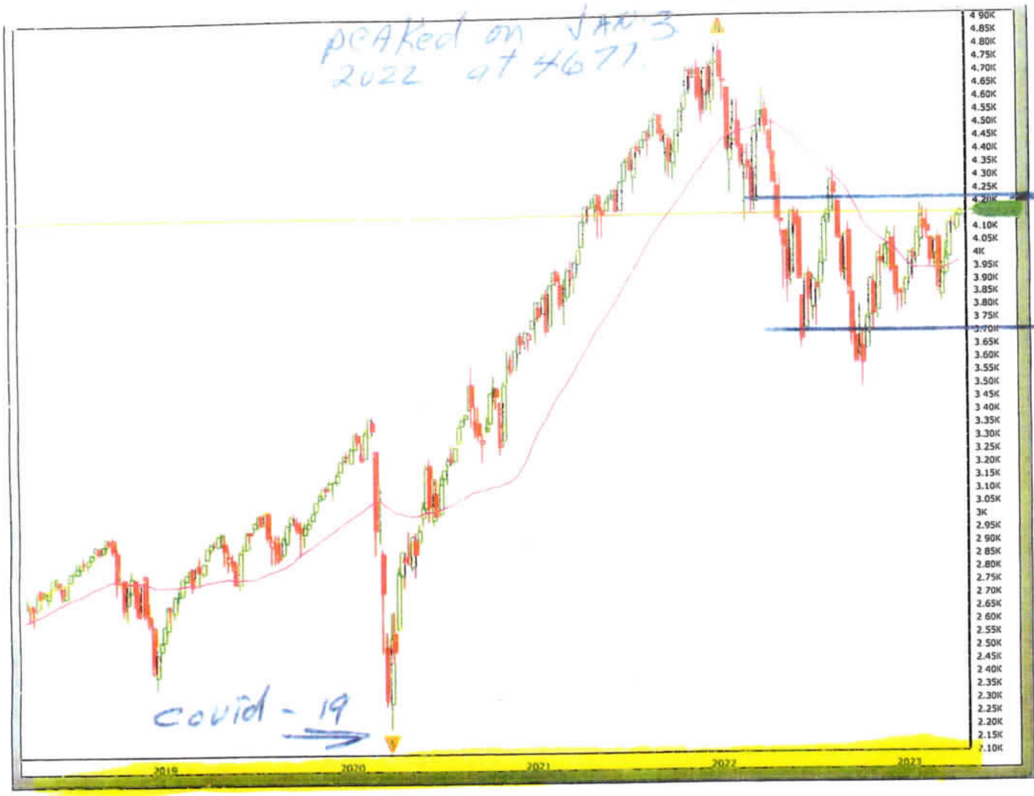
The first quarter certainly brought a welcome relief from the bear market all around the world. After double-digit losses in 2022, most stocks are up in 2023: The NasDaq after suffering a loss of approx. 37% in 2022, was up 20.7%, the EAFE or international index was up 9.5%, the S&P rose 7.5% and the Dow Jones rose 1%. We may have turned the corner, but looking back at a full 12 months, still shows losses.

The 1st quarter saw a reversal of 2022 market trends. Growth stocks went higher while value and dividend stocks which held up best in the bear market, struggled.

Stocks or Equities continue to move on shifting expectations about the Economy and Federal Reserve Policy. Last month, they swing from one extreme to another. swinging from one extreme to another last month. In early March, Jerome Powell, the Fed Chairman, was suggesting a higher interest-rate to slow stubborn inflation. Then, seemingly out of nowhere, came the second largest bank failure in U.S. history and recession fears again surged. Over the next few paragraphs we discuss Bank Bail Outs and examine the Overall Condition of the economy.

The Bank Bail Out

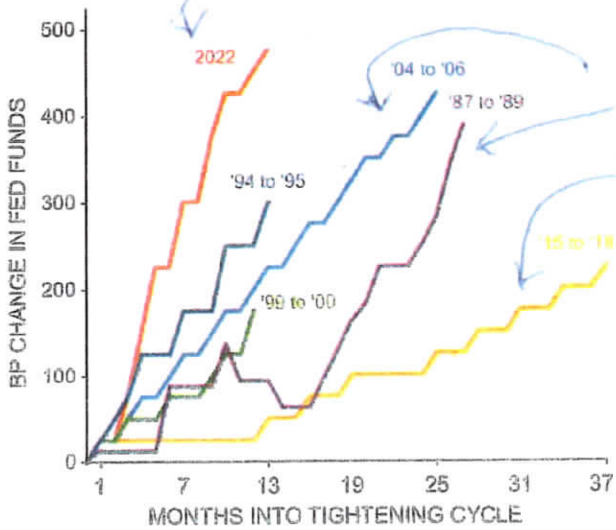
I studied economics at and one thing I learned was everything is connected. The chart on the back of this page shows that interest rates not only went higher but happened over 7 or 8 months compared to a normal cycle of 18 to 25 months. Interest rates were so low banks could make profitable loans fixed for 5 to 10 years at rates at 5 to 6%. However, when interest rates rose so quickly, these loans deserved a rate of 8 to 9%. The loans priced at 5 to 6% dropped in value when



Range bound - Trading between 3600 to 4200 for the last year.

5 year chart
S+P 500

IN 2022 the Fed increased interest Rates At the Fastest pace ever. Resulting a banking CR



These are different Time periods when The Federal Reserve Bank Raised interest Rates at a much slower pace.

The Above chart shows the change in interest rates over different market cycles interest rates were raised so sharply. I worked as a corporate lender for 5 years and believe the loans are well secured and can be repaid from earnings. This is known as the credit risk, which is low. However, the interest rates, when the loans were issued (ie 5 to 6%) were low compared to the higher current rates of over 8%. This is known as the interest rate risk which is high. On April 14th, Jamie Dimon, head of J P Morgan Bank, thinks the crisis will blow over and banks will absorb these losses over the next several years. We agree, but it will be harder to get loans which in turn will slow the economy and inflation. The bottom line here is: Aggressive Lenders have headed for the hills for now!

Slowing the Economy Down to Fight Inflation

Meanwhile, Chairman Powell, has been raising interest rates in an attempt to slow the and reduce inflation and he is succeeding to some extent. Charts on the back of this page show decreases in the number of people leaving or quitting jobs, reduced job openings and increased layoffs. The question is ...Is this enough? Inflation peaked in June 2022 at over 8% and is expected to be at 3.53% by the end of 2023. Inflation is the continual rise in prices which fuels higher demand for wages. Powell's goal is to get it down to 2%.

In our last letter, we quoted Blackrock, the world's largest money manager, who expects inflation to cool but stay persistently higher than the Central Banks target rate of 2%. Blackrock's reasoning is that a progressively aging population results in a reduced work-force, which increases labor bargaining power and hence inflation. This may result in working age people getting a larger slice of the economic pie. (see article on Millennials)

Powell stated there will be one more increase in interest rates of approximately 1/4 of 1%. Then he will stop and let the higher interest rates work through the economy and hopefully have a soft landing or a recession that is short lived. As noted above, tighter bank lending standards will help slow the economy down as well. Right now, 2 year interest rates are higher than 10 year rates. When this happens, usually a recession is just around the corner. It is hard to predict the future but it is difficult to believe, at this time that everything will go as planned .... we think it will be harder to get inflation back to 2% but will review the data from week to week.

Conclusion

With most signs pointing to higher interest rates going into a period of slower growth we are cautious, yet realize it's best to invest when things are down for the long term. Starting January 2022 we started reducing or selling high priced technology stocks and focused on more conservative, dividend paying equities, and certificates of deposit. I included an article outlining how it is best to stay invested so you don't miss the markets best days. We continue to believe the market will be higher a year from now. We welcome your calls.

Kenneth A Gilpin CFP, Sound Investments Inc. 913-908-4366

U.S. NEWS

Job Openings Declined Below 10 Million

Employers' postings in February remained far above the 5.9 million people seeking work

By Gabriel T. Rubin

The number of job openings fell in February, dropping below 10 million for the first time in nearly two years in a sign that employers' demand for workers eased amid a still strong labor market.

There were a seasonally adjusted 9.9 million job openings in February, the Labor Department said Tuesday, down from January's downwardly revised 10.6 million.

February's openings were below a record 12 million reached in March 2022, according to revised 2022 data, but still well above seven million openings in February 2020 ahead of the pandemic.

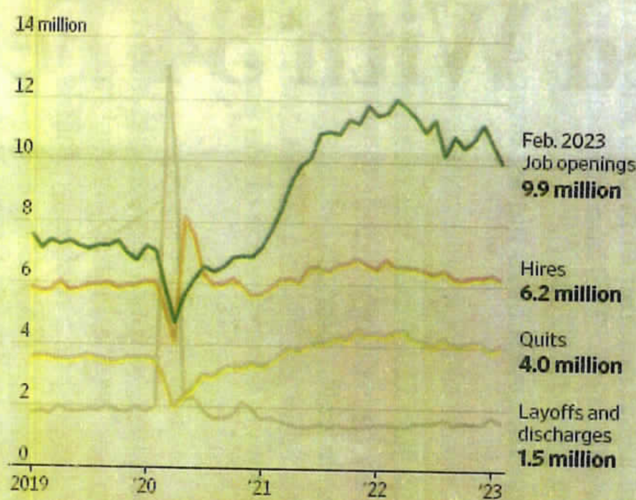
Job openings in February still far outnumbered the 5.9 million unemployed people seeking work, indicating the labor market remained tight.

That fits the overall picture of a solid but slightly cooler labor market in February. Employers added 311,000 jobs—fewer than in January but a still-robust gain—while the unemployment rate edged higher but remained low at 3.6%.

February's figures predate the banking industry turmoil that erupted in March, but estimates by private firms showed softening in the demand for workers last month.

The Labor Department is set to release on Friday its March employment report, which will show how the labor market fared in a month when federal regulators intervened to stabilize the banking system after two regional banks failed.

U.S. labor market



Note: Seasonally adjusted
Source: Labor Department

Even before the banking tumult, the labor market showed pockets of both strength and weakness. Many employers—particularly in retail and leisure and hospitality—are creating jobs at a steady clip while companies in tech and other industries announce layoffs.

"Small firms are still trying to find qualified talent," said Nela Richardson, chief economist at payroll processor Automatic Data Processing Inc. "It's still a challenge for them to find those people."

Despite the layoff announcements, new filings for unemployment benefits haven't increased significantly from their recent low levels. Some laid-off workers may be forgoing applying for jobless assistance because they are quickly finding new work or are receiving generous severance packages.

Hiring at restaurants, hospitals and nursing homes drove February's job growth. But there are signs that employers in those sectors may be reaching their limits: Healthcare and social-assistance roles fell by 150,000.

Openings in professional and business services, where many corporate layoffs have been announced, dropped by 278,000. Openings in arts, entertainment and recreation rose by 38,000 and in construction grew by 129,000.

Federal Reserve Chair Jerome Powell has pointed to the imbalance between job openings and available workers as a key driver of inflation, as strong labor demand can drive up wages. But the labor-force participation rate—the share of adults who hold or are seeking jobs—has edged up in recent months, and wage growth has slowed, both signs of a looser labor market.

That cooling pattern, if continued, should result in "easing upward pressures on wages and prices," Mr. Powell said last month.

◆ Heard on the Street: Number could be welcome sign...... B14

The [illegible] is a 4 year chart. A one year chart shows more clearly a slowing economy. I used this one as I wanted you to see the commentary.

Adults in their 30s borrowed heavily in pandemic and now struggle to catch up

By Gina Heeb
And AnnaMaria Andriotis

Danielle Smith and her family thought they had finally escaped the paycheck-to-paycheck cycle they had fallen into. They saved money during the pandemic while they were stuck at home. They used stimulus checks to chip away at $20,000 in credit-card debt and enjoyed a reprieve from monthly payments on their $160,000 in student loans.

Lately, they have been hit with one unexpected expense after another, from an out-of-pocket MRI to a broken water heater. They also took trips with their four children that they had put off because of Covid, including to Walt Disney World, local museums and the zoo. By 2022, their credit-card debt had doubled to nearly $40,000.

"It's just a never-ending cycle of playing catch-up," said Ms. Smith, 34, who together with her husband have a household income of roughly $80,000 a year in Lincoln, Neb.

Wealth gap

American millennials in their 30s have racked up debt at a historic clip since the pandemic. Their total balances hit more than $3.8 trillion in the fourth quarter, according to the Federal Reserve Bank of New York, a 27% jump from late 2019. That is the steepest increase of any age group. It is also their fastest pace of debt accumulation over a three-year period since the 2008 financial crisis.

The debt buildup could worsen a generational wealth gap that was already on the rise for millennials. Many started their careers during the 2007-09 recession with no bargaining power, crimping their earnings ever since. Even when the economy is doing well, some have said that they feel as though their financial gains are fragile. That can leave them hesitant or less able to take risks that would power the broader economy, such as starting a business or investing.

"For millennials, it's felt like being hit from every side," said Charlotte Principato, a financial-services analyst at the research company Morning Consult who covers younger consumers. "They're not feeling in control of their financial lives."

Stacey Coquelin, 31, was nearly ready to buy her first home before the pandemic. After two years of living with her parents, Ms. Coquelin had saved up for a down payment and shrunk her credit-card debt.

When schools were shut down, Ms. Coquelin ran credit-card balances back up to cover child-care bills of $1,200 a month for her two children. Then inflation started to squeeze her budget, while higher interest rates made it more expensive to borrow. Ms. Coquelin opened new credit cards and dipped into her down-payment money, eventually ending up with more than $20,000 in credit-card and personal-loan debt and little saved.

"Everything was more expensive—shampoo and kids getting older and needing different things," said Ms. Coquelin, a construction-project manager in the Miami area who makes just over $40,000 a year. "Now you're getting nowhere."

American families, on average, held up better than expected in 2020 during the Covid pandemic.

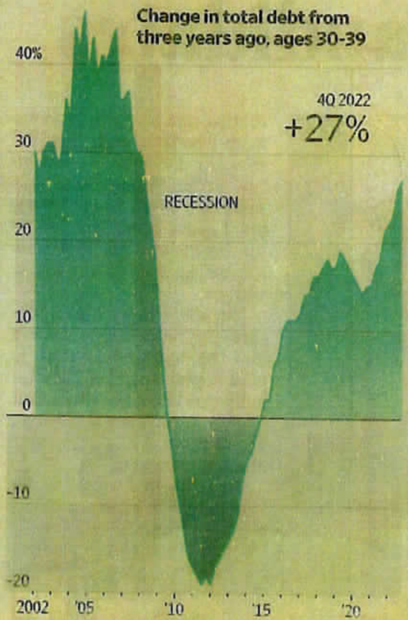
Now, rapid inflation is forcing many to spend more on gas, groceries and rent, eating into pandemic savings. The last round of stimulus checks went out in 2021. Families are back to commuting, traveling and eating out again. The Federal Reserve's campaign to curb inflation has pushed up interest rates on credit cards and other types of loans.

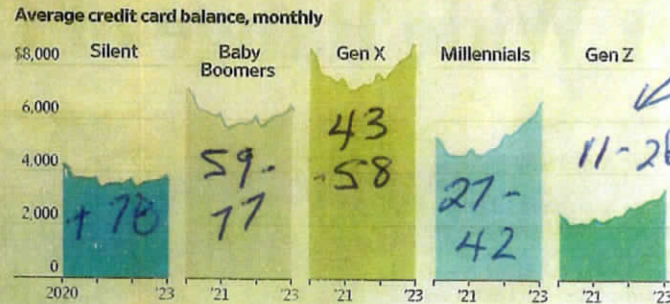
Falling behind

The economy is by many measures in a solid place. The jobless rate is at its lowest level in more than 50 years. Retail spending is strong. Inflation, while still high, is coming down.

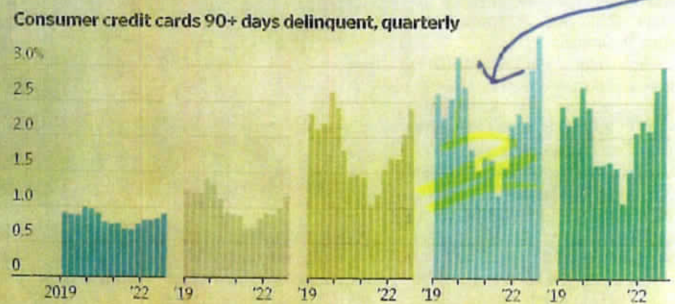
MARY BETH KOETH FOR THE WALL STREET JOURNAL

Stacey Coquelin, 31, had to dip into her down-payment money for a home during the pandemic as her everyday expenses rose sharply.





Ages per group.



Millennial with families under most pressure from credit cards.

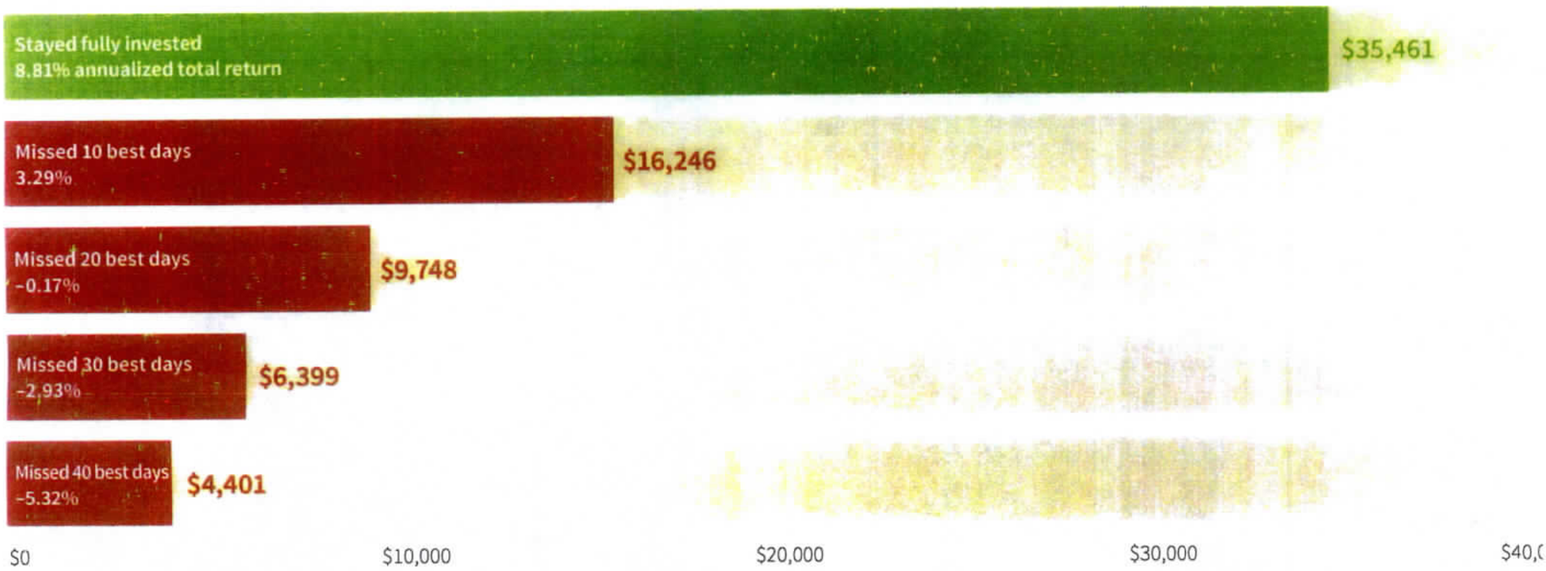
Sources: Federal Reserve Bank of New York (total debt); VantageScore Solutions (credit card balance); TransUnion (consumer credit cards)

But there are signs that millennials are overstretched. The average credit-card balance for millennial borrowers was about $6,750 in January, up 26% from three years earlier, according to credit-score provider VantageScore Solutions. Balances were little changed for Gen X, and fell between 11% and 15% for older generations. Average personal-loan balances for millennials rose more than they did for overall borrowers.

"We are seeing a 'credit gap' emerge in the sense that younger, less-affluent borrowers are coming under financial pressure from higher living costs and inflation outpacing their income gains," said Silvio Tavares, chief executive of VantageScore

Stay invested so you don't miss the market's best days

$10,000 invested in the S&P 500 (12/31/07–12/31/22)



Data is historical. Past performance is not a guarantee of future results. The best time to invest assumes shares are bought when market prices are low

Time, not timing, is the best way to capitalize on stock market gains

By trying to predict the best time to buy and sell, you may miss the market's biggest gains.

For informational purposes only. Not an investment recommendation.

Investors should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. For a prospectu if available, containing this and other information for any Putnam fund or product, call your financial representative or call Putnam at the prospectus carefully before investing.

Putnam Investments | 100 Federal Street | Boston, MA 02110 | putnam.com