



December 8, 2022

## Year End Economic Update

Main stream media paints a glossed-over version of the economy. It is easy to be swayed by their empty narratives. We get fed soundbites like this:

- Bank of America CEO, Brian Moynihan - "U.S. Consumers' spending seeing a 'mitigation' in growth, not a slowdown". He goes on to state that consumers still have strong credit, unemployment is low, wage growth is strong, and corporations are still in good shape, though there are recessionary risks.
- JPMorgan Chase CEO, Jamie Dimon, states the U.S. Economy was "actually still doing well" at present and consumers were likely to be in better shape compared to the 2008 global financial crisis.

However, things are not as they appear.

A common theme for our newsletters this past year has been inflation and interest rates. We are now into December and these topics are still top of mind. The U.S. inflation report for October saw the consumer-price index increase +7.7% year over year (YoY). Although down slightly from September, that increase is still well north of the 2% inflation goal of the Federal Reserve. To combat the continually higher inflation numbers, the Federal Reserve continues to raise interest rates with the most aggressive pace of policy tightening since the early 1980s. This will continue to put stress on the growth of the economy.

A few points to consider:

- Consumers' purchasing power tightens as real earnings growth is negative for the 18<sup>th</sup> consecutive month.
- According to TransUnion, the percentage of auto loans hit the highest rate for 60-day delinquencies in more than a decade.
- In October, home sales were down -28.4% YoY, as home sales declined for the ninth straight month.
- Egg prices increased +208% YoY

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Many companies are initiating layoffs as profit cycles continue to decline:

- Microsoft – reporting slowest growth in 5 years; under 1,000 layoffs
- Alphabet (Google) – reported net profits -27% YoY; 10,000 layoffs
- Facebook – digital advertising trends slow; over 11,000 layoffs
- Amazon – profit slowdowns; 10,000 layoffs – expected to increase to 20,000 layoffs

Growth is not only slowing in the U.S., but globally; 80% of countries have slowing growth. According to the International Monetary Fund (IMF), “global economic activity is experiencing a broad-based and sharper-than-expected slowdown, with inflation higher than seen in several decades. The cost-of-living crisis, tightening financial conditions in most regions, Russia’s invasion of Ukraine, and the lingering COVID-19 pandemic all weigh heavily on the outlook.”

As year-end approaches, we will stay conservative with your portfolio allocations. We are proactively planning for the challenging economic landscape and remain extremely cautious due to the deteriorating economic conditions. If you still have concerns or questions, please reach out and we can discuss this in further detail.

*As always, we at Kapusta Financial Group, would like to thank you for the trust and confidence you place in our team.*