ANCHOR
Investment Management, LLC

Q1 COMMENTARY 2023

April 18, 2023

Market/Index	2020 Close	2021 Close	2022 Close	2022 Change	As of 03/31/23	2023 Change
DJIA	30,606.48	36,338.30	33,147.25	-8.78%	33,274.15	0.38%
NASDAQ	12,888.28	15,644.97	10,466.48	-33.10%	12,221.91	16.77%
S&P 500	3,756.07	4,766.18	3,839.50	-19.44%	4,109.31	7.03%
Prime Rate	3.25%	3.25%	7.50%	4.25%	8.00%	0.50%
10-year Treasury	0.93%	1.52%	3.88%	2.36%	3.48%	-0.40%

High Inflation Actually Ended 9 Months Ago

The inflation number reported by the FED and most major news outlets can be misleading at times and it helps to understand the number and put it in context. When you hear that inflation is 8%, they are actually saying that the Consumer Price Index (CPI) is 8% higher than it was one year ago. The inflation number does not tell you what happened in each of the last 12 months and interpreting that data is extremely important. For instance, if the CPI number is 100 for 12 months and then rises to 108 for the next 12 months, inflation will be reported as 8% each month for a year, even though prices only rose in one month. This phenomenon is close to what happened in the first half of 2022; prices rose very quickly over a six-month period (January – June) and have essentially leveled off since then. Prices actually fell in 4 of the last 9 months. We expect that reported inflation numbers will return to a “normal” 2.75% in June, not because prices fall in June 2023, but because they stopped rising in June 2022.

The End of Interest Rate Hikes?

Our thesis going back a year or so is that the FED would raise overnight interest rates to around 5-5.5%. This range gives them the ability to manipulate the economy and provide stimulus without printing new money through quantitative easing. The current rate is 4.83% and there is every indication that they will raise rates another 25 – 50 basis points in the next three months. “Remarkably” this action will coincide with inflation returning to normal levels, allowing the FED to announce that they will not be raising rates further and declare a “soft landing”, interest rate increases without a corresponding recession.

Without getting too far out in front of ourselves, it’s been quite remarkable really to see what the economy has been able to absorb. In the past year, overnight interest rates have been raised from 0% to 5%. Rates have not risen this fast since Paul Volker raised rates to 22% in 1980 to stop runaway inflation but in the process started a recession that lasted 18 months. This time around, corporate revenues and profits remain stable, unemployment is low, and we seem to be relatively unfazed.

Is Everything Too Big To Fail?

Perhaps we have been able to land softly because our government has taken on an activist role in reducing negative events in the economy. The banking system was bailed out in 2008. Interest rates were held artificially low for the last 15 years to stimulate economic growth around the world. COVID stimulus was unprecedented. Most recently, when Silicon Valley Bank and a few other banks collapsed due to poor management, the federal government stepped in to guarantee ALL deposits at the banks, even those over FDIC insurance. It seems that the government is taking on the role of insuring US businesses against every large disaster, even if it's the businesses fault.
Every business over a certain size appears to be "Too Big To Fail".

While these interventions can alleviate short-term pain, we worry about the long-term effects of continued bailouts. They make individuals less likely to protect their own interests. They make people less likely to save for a rainy day. They let businesses take on more risk than they should, and they make everybody look to the government rather than themselves for solutions to problems. These measures increase the role of government in people's lives and are certainly not what the founding fathers had in mind.

Anchor Updates

Anchor's Brian Blackwelder has travelled to Boston to cheer on his son, James, as he runs in the Boston Marathon on Monday, April 17, 2023. James is a 21 year old junior at Wofford majoring in Accounting. Congratulations to James and his family. We wish him well in the race!

All of us at Anchor hope that you will have a great Spring. We thank you for your trust and confidence and look forward to seeing you soon!

3205 Devine Street, Columbia, SC 29205   Phone: 803.766.2100

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