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Your Copperwynd Financial Newsletter: May 2022

Market Commentary

In April came a story about a rabid fox attacking a congressman and others near the Capitol. Now comes a story of a belligerent turkey accosting pedestrians along the Anacostia Riverwalk Trail in Washington D.C. What do the animals know?

While I doubt they are up on their Wallstreet Journal reading, animal spirits have certainly been at play in the markets thus far this quarter, as the S&P suffered its worst April in 52 years, dropping almost 10% for the month. A combination of factors has pushed consumer sentiment in the negative direction as earnings season showcased a number of misses, COVID lockdowns in China continue to plague the supply chain, the Russia-Ukraine conflict continues, and then the Federal Reserve has signaled a fairly "hawkish" (oh, the animal puns just continue, don't they?) outlook for interest rates.

Is it any wonder that the stock market did not respond well to this very difficult environment?

We said it would be a year of transition and we expect this type of volatility will be present throughout the year. Just remember that while volatile markets feel uncomfortable, this is generally when we find our best opportunities as well. Let's take a look at the events of this year and see where opportunities could present themselves in due time.

Earnings. Despite the challenging environment – and we are a little more than half-way through all of the companies who will report profits – it may surprise you to know that 80% of the companies have reported a positive earnings surprise! Even Europe's earnings season has been well received in spite of more severe obstacles than our economy, due to the Ukraine conflict. By sector, energy and other commodities have been positive, while the tech sector has gotten a bit of a beating, with the NASDAQ down 22% YTD vs. the S&P at -14%. Some technology names, darlings of the past few years, are down 30% or more, setting up some very attractive buying points … eventually.

Russia / Ukraine Conflict. War is never the outcome a civilized world desires, let's just start there. Ukraine did not invite this conflict, but they will defend their right to self-governance and we support that right as a democratic nation. The economics of this war have created escalating oil prices, as Russia has used oil as a weapon upon the countries supporting Ukraine, and we will surely see higher prices for a vast number of goods that have their source in Ukraine and Russia, particularly steel and grains. On the flip side, the Russian invasion of Ukraine has awoken the slumbering governments who had grown somewhat complacent in their military readiness and this represents some large opportunities for

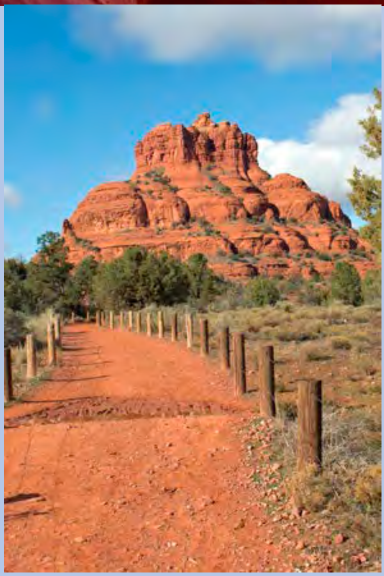
manufacturers of weapons and munitions. The reliance of Europe on Russia for oil and most especially natural gas, also has created a huge opportunity for US produced oil and liquified natural gas, although it will take time to ramp up to fulfill everyone's needs – but it will happen and likely will continue to be a huge future source of revenue for US oil companies.

Zero-COVID policy in China. Is this a valid policy any longer? Not our decision to make, but we as a nation are bearing the brunt of the effort to eradicate COVID in China as Shanghai and Beijing are experiencing lockdown measures, which is leading to further supply chain issues.As the second largest economy in the world, their internal growth rate impacts our markets as well and their "PMI" – Purchasing Managers Index – dropped to 46 in April. Anything below 50 signals a contraction in their economy. However, projections from the IHME (Institute for Health Metrics and Evaluation) estimates that infection rates in China are likely to decline dramatically by July of this year, which could mean a strong rebound for both economies going into the end of the year.

Interest Rates. The Federal Reserve has been the wind behind the economic recovery from the pandemic from the early days of the lock-down. While the Federal Reserve has raised rates now only twice – once by .25% and just last week by another .5% - you will not have felt that affect in your money market rates just yet. Mortgage rates, on the other hand, have rocketed up from their lows when the 30 year mortgage rate bottom at just under 3% to hitting 6% this week. That will absolutely be felt in the hyper-hot housing market. See our graphic of the month for details on how this may hit housing prices **CLICK HERE**. The Feds have indicated another two .5% rate increases at each of their next meetings. Once we start to see inflation numbers cool, they can take their foot off that gas pedal and we should see calmer bond markets with higher and more reasonable yields than we have seen in years. Patience, however, will be required.

In your portfolios here, we are back fully to cash on the bond (Total Return) portfolios. In the stock portfolios, we started taking risk off and moving to cash in early April and have continued with a move to cash for all or some positions in several of the models. When you have a month like April – it still won't feel like it was enough. We do encourage you to reach out to us if you are concerned as ultimately, you need to be able to sleep at night and we can discuss the implications to your personal financial plan.

A reminder that you will also see in a separate email from us this week – we will be conducting our quarterly Zoominar "**Transition 2022; In Process"** - on Thursday, May 19th at noon AZ time
(1 p.m. Utah).



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Financial Planning

Savings bonds are as old-school a money tool as you'll find, but one type in particular is having a real moment, with a historic rise to a 9.62% annual rate. The Treasury Department announced the new rate on May 2, which is active through October this year. Between a stumbling stock market and inflation soaring to 8.5% in March for the biggest year-over-year gain in four decades,
inflation-protected Series I savings bonds have drawn new interest from savers and investors.

How do I Bonds work? I bonds benefit from the inflation surge as they pay both a fixed rate return, which is set by the U.S. Treasury Department, and an inflation-adjusted variable rate return, the latter of which changes every six months based on the Consumer Price Index. In other words, they can protect your cash against inflation.

Note that individuals can't buy I bonds through a brokerage account, only through the U.S. Treasury Department's website, and there is a limit to how much you can invest. You generally can't buy more than $10,000 in I bonds each year, plus an optional $5,000 extra if you put your tax return in paper bonds.

I bonds mature after 30 years, meaning you can continually earn interest on them for 30 years unless you cash them out first. While you can redeem them as early as one year after your initial purchase, cashing in early, specifically within five years, means you forfeit the last three months of interest earned. For tax benefits, you can defer declaring your interest until maturity or until you cash out.

What Are the Benefits of I Bonds? The chief benefit of I bonds is that they protect the purchasing power of your cash from inflation. When prices rise across the economy, they erode how much the same amount of dollars can buy, but safe investments like I bonds can help you maintain the value of the cash component of your asset allocation.

Any security offered by the U.S. Treasury has nearly zero risk of default, and, as noted above, I bonds offer attractive tax benefits. Their interest payments, for instance, are exempt from state and local taxes, and they may be entirely tax free if used to pay for college tuition and fees at an eligible institution.

How To Buy I Bonds? You can buy I bonds electronically online at the TreasuryDirect website. You can also purchase up to $5,000 per year of paper I bonds with the proceeds from your tax return. There is no secondary market for trading I bonds, meaning you cannot resell them; you must cash them out directly with the U.S. government.

I bonds are an excellent choice for conservative investors seeking a guaranteed investment to protect their cash from inflation. Although illiquid for one year, after that period you can cash them at any time. The three-month interest rate penalty for bonds cashed within the first five years is minimal in light of the fact that they preserve your initial purchase amount and you would find similar penalties for early withdrawals from other safe investments. If you have questions on I bonds, or wonder if they are an appropriate investment for you and your portfolio, give us a call at the office to discuss!

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Tax Planning

A DONOR-ADVISED FUND, or DAF, is a giving account established at a public charity. It allows donors to make a charitable contribution, receive an immediate tax deduction and then recommend grants from the fund over time. Donors can contribute to the fund as frequently as they like, and then recommend grants to their favorite charitable organizations whenever it makes sense for them.

How Donor-Advised Funds Work

1. Contribute assets - To establish your donor-advised fund, you make an irrevocable contribution of personal assets—which could include cash, stock, real estate and more.

2. Receive an immediate tax deduction - When you contribute to your donor-advised fund, you may be eligible to claim an itemized tax deduction for federal and/or state income tax purposes. The amount of the deduction will depend on several factors, including the type of asset donated and how long you have owned it. This arrangement allows you to plan your gift so that you can take the tax deduction when it makes sense for you and to recommend grants to your favorite charitable organizations at any point in the future.

3. Personalize your DAF account As you establish your donor-advised fund account, you can structure it in a way that best meets your charitable goals. You can name your donor-advised fund (DAF) anything you would like; appoint friends and family members to help you manage the responsibilities of a DAF; and design a Legacy Plan to determine what will be done with your DAF assets beyond your lifetime, which may include appointing successors or charitable beneficiaries.

4. Support your favorite charities, now or in the future As soon as your donor-advised fund is established and funded, you can recommend grants to the charitable organizations closest to your heart. You can make single or recurring grants, either with recognition or with total anonymity.

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<u>Benefits of a Donor-Advised Fund</u> DAFs have become popular in part because of their versatility, allowing donors to give when, what, how, and where is most favorable for them. There are many reasons why donors choose a donor-advised fund as a philanthropic giving vehicle. Charitable giving with a donor-advised fund can be a tax-efficient way to build a charitable legacy. Here are the benefits of a donor-advised fund:

- Maximize tax benefits
- Contribute immediately, build a philanthropic strategy and donate when you're ready
- Grow your contributions over time, making more charitable dollars available to nonprofits
- Guarantee philanthropic dollars reach the causes you care about with an irrevocable contribution
- Simplify organization and administration
- Create a charitable legacy
- Choose how you are acknowledged
- Develop a philanthropic vision and philosophy
- Reach international charities and NGOs while still receiving federal tax credit

What is your gifting approach now? Do you have a desire to leave a financial legacy when you are gone? Let's talk about this during our next planning meeting!

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401(K) Allocation

There are trades.

We waited to publish this earlier due to the concerns over a critical technical indicator, also called a “key resistance point”. Believe it or not, markets had sold off as much (if not more) by the first week of March before then bouncing off those lows and recovering fairly quickly going into the end of the first quarter. We are once again at that point but as of this writing, that key technical indicator is about to be broached, signalling further deterioration in the markets. Whether declines will be substantial or not remains to be seen, but there are several headwinds that could mean some trouble ahead in the near term.

The Federal Reserve has accelerated their program for raising rates, moving up to .5% for this latest round and signalling another two half point rate hikes at subsequent meetings. Markets rallied briefly following their announcement as there was some fear of a .75% increase, but Powell assured markets that they had no appetite for being that aggressive. Yet the pressure will be real as inflation continues to run “hot” and both housing and employment numbers show no signs of cooling off. Yet. With mortgage rates hitting 6% for the 30 year this week, that may change quickly. Such uncertainty is the driver of sentiment and volatility in our markets this year.

It should be noted that our 401K models are currently at max risk-off now, so if you are still not sleeping at night, bump your allocation to the level below what you had typically used.

As always, if you need assistance in rebalancing, please call us at the office and we will be happy to help!

Apr-22	Agg. Growth *100% Equity*	Growth	Moderate	Balanced	Conservative
	20%	**35%**	**55%**	**65%**	**90%**
Stable Asset - OR - Short Term Bond	*20%*	*35%*	*55%*	*65%*	*90%*
Total Return	*0%*	*0%*	*0%*	*0%*	*0%*
High Yield Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
Inflation Protected Bonds	*0%*	*0%*	*0%*	*0%*	*0%*
	70%	**55%**	**40%**	**30%**	**10%**
Large Cap Growth	*30%*	*15%*	*10%*	*10%*	*0%*
Large Cap Value	*40%*	*40%*	*30%*	*20%*	*10%*
	10%	**10%**	**5%**	**5%**	**0%**
Mid Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
Mid Cap Value	*10%*	*10%*	*5%*	*5%*	*0%*
	0%	**0%**	**0%**	**0%**	**0%**
Small Cap Growth	*0%*	*0%*	*0%*	*0%*	*0%*
Small Cap Value	*0%*	*0%*	*0%*	*0%*	*0%*
	0%	**0%**	**0%**	**0%**	**0%**
Developed International	*0%*	*0%*	*0%*	*0%*	*0%*
Emerging Markets	*0%*	*0%*	*0%*	*0%*	*0%*
	100.00%	100.00%	100.00%	100.00%	100.00%

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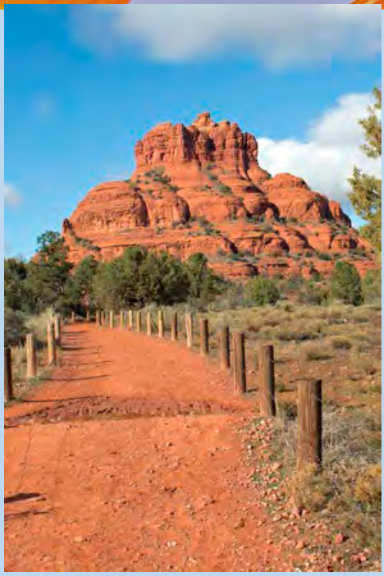

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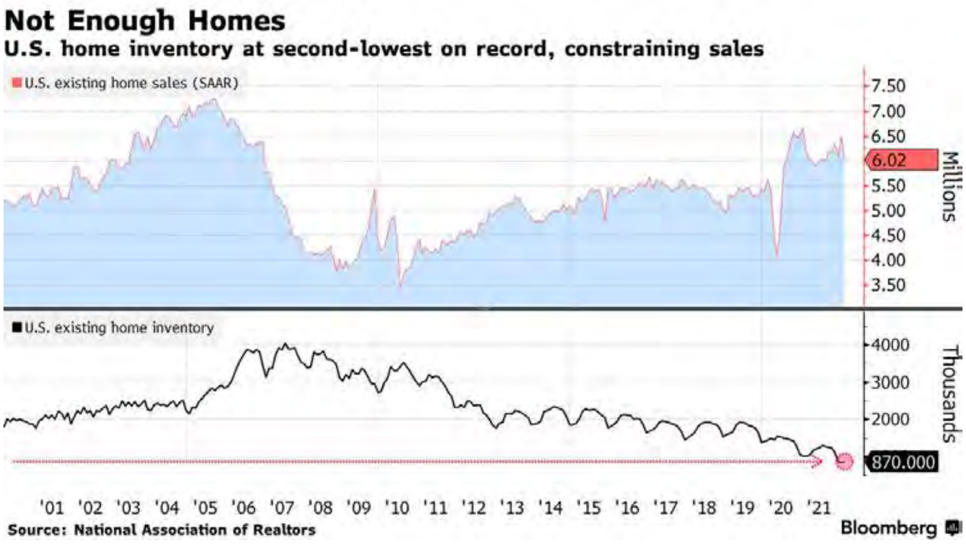
Graphic of The Month



The housing market is showing signs of distress. Pending home sales have posted the 5th straight month of declines as of March of this year; with the recent price hike by the Federal Reserve and more to come, we will begin to see the impact of rapidly rising mortgage rates over the course of the next several months.

While it may feel that investors and their cash are buying up your neighborhood, 80% of home purchases are financed and are largely individual home owners.

The increase from 3.25% for a 30 year fixed mortgage, available less than a year ago, to 5.25% for the same mortgage would mean that the price of the home being purchased would have to drop roughly 20% in order to equal the same payment. This should start to put the brakes on the torrid pace of home sales … unless inventory continues to remain low. The challenges posed by supply chain shortages continue to plague the housing market as average time for a new build has dragged from six months to 14 months over the course of the past two years. Increasing mortgage rates may also result in current homeowners staying where they are as availability and higher rates make changing homes very challenging and now, with the 30 year mortgage touching 6% this week – much more expensive.