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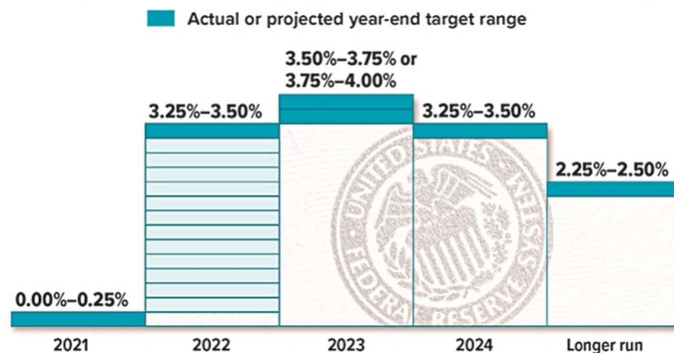
Make sure to read John Stewart's article on "Stocks Cheer Lower Inflation" below.

Rising Interest Rates

After dropping the benchmark federal funds rate to a range of 0%–0.25% early in the pandemic, the Federal Open Market Committee (FOMC) of the Federal Reserve has begun raising the rate aggressively in response to high inflation. Raising the funds rate places upward pressure on a wide range of interest rates, including the prime rate, small-business loans, home-equity lines of credit, auto loans, credit-card rates, and adjustable-rate mortgages (with indirect pressure on fixed-rate mortgages).

This chart illustrates the federal funds target range at the end of 2021 and future year-end projections released after the FOMC June 2022 meeting, when the Committee raised the range to 1.50%–1.75%.



Source: Federal Reserve, June 2022. These are only projections, based on current conditions, subject to change, and may not come to pass.

Stocks Cheer Lower Inflation

Stocks have rallied nicely off their June lows, accelerating higher last week in the wake of the most recent inflation report. The headline consumer price index, or CPI, measure of inflation came in at 8.5% for the month of July versus the same period a year ago. While 8.5% is still an uncomfortably high level of inflation, it is less than the 9.1% reading from last month, and it is less than the 8.7% reading that economists expected. The news was good enough to send stocks soaring to their highest levels since late April based on the expectation that moderating inflation should allow the Federal Reserve to become less aggressive with interest rate hikes going forward. Stabilizing prices will obviously help take some pressure off cash-strapped consumers struggling to pay bills, but a lot of damage has already been done. Keep in mind, lower inflation doesn't mean prices are falling; it just means that they are rising at a slower pace. Despite the recent strength in equity markets, the S&P 500 index is still down roughly 10% year-to-date. Our concern is that earnings expectations for the next few quarters have been weakening even as stock prices have rebounded. Unless that trend changes, we may still be in for a few more bumps in the market road ahead.

When it comes to investing money, whether it be in stocks and bonds, real estate, or anything else for that matter, it is always important to keep in mind that there is simply NO FREE LUNCH. This is a topic that I've touched on many times in the past, but it bears repeating because it is a critical concept to understand, and one that I wanted an opportunity to communicate with newer readers as well. Every investment is priced relative to its risk profile. If an investment has the potential to deliver a high rate of return, that opportunity does not come for free–there is a higher level of downside risk associated with that investment as well. One of the most common mistakes investors make is in reaching for yield, or income generated by a particular investment. They see opportunity when a stock pays a large dividend because they think "at least I'll earn the dividend yield on my money." But what happens when the stock price falls 20%? Some of the highest yielding investments have turned out to be the worst in terms of total return, which is the only return that should matter. If something seems too good to be true, or offers a higher "return" than other similar investments are offering, just remember – there is no free lunch.

While investors have been cheering the recent rally in stock prices, they should bear in mind that we are entering a particularly dangerous stretch for markets. Seasonality, the idea the market behaves a certain way based on the calendar, is far from an exact science. However, it should be pointed out that the months of August and September are, on average, the weakest two months of the year for the stock market. In addition, October is well-known as a month that has produced many-a-market-plunge. As always, we encourage long-term investors to stick to a disciplined investment strategy and not worry about what happens in the next few months. With that being said, expect the potential for a bit more volatility as we move from summer into fall.

Dividends for Income and Total Returns

John D. Rockefeller, one of the wealthiest Americans in history, loved receiving stock dividends. "Do you know the only thing that gives me pleasure?" he once asked. "It's to see my dividends coming in."[1]

There may be many things other than money that give you pleasure, but you can still appreciate the stabilizing role that dividends might play in your portfolio.

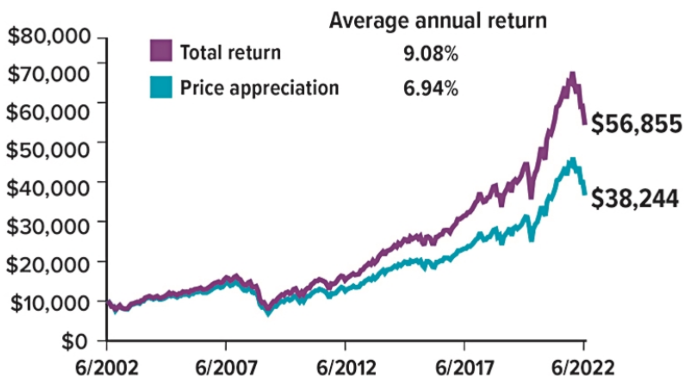
Steady and Dependable

Dividends can be a dependable source of income for retirees and others who want an income stream without selling their underlying investments. If you do not need your dividends for current income, reinvesting these relatively small payments can become a powerful growth engine (see chart). Because dividends are by definition a positive return, they can boost returns in an up market and help balance declining stock prices in a down market.

Whereas stock prices are often volatile and may be influenced by factors that do not reflect a company's fiscal strength (or weakness), dividend payments tend to be steadier and more directly reflect a company's financial position. Larger, well-established companies are more likely to pay dividends, but many midsize and smaller companies do as well. Stock funds usually pay dividends based on the dividends of the stocks held by the fund. Some funds focus specifically on dividend stocks.

The Power of Reinvestment

Growth in value of a hypothetical $10,000 investment in the S&P 500 index for the 20-year period ending in June 2022, comparing price appreciation and total return, which includes reinvesting dividends.



Source: Refinitiv, 2022, for the period 6/30/2002 to 6/30/2022. The S&P 500 index is an unmanaged group of securities considered representative of U.S. stocks. Expenses, fees, charges, and taxes are not considered and would reduce the performance shown if included. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Quarterly Payments

Dividends are typically paid quarterly but quoted by the annual dollar amount paid on each share, so your annual income from an individual stock can be estimated by multiplying the dividend payment by the number of shares you own. Of course, the income will change if the dividend increases or decreases, or you obtain additional shares.

Dividends are also expressed as yield — the annual dividend income per share divided by the current market price. By this measure, the yield increases as the share price decreases, and vice versa, assuming the dividend payment remains the same. Current dividend yields can be helpful in deciding whether to invest in a stock or stock fund, and historical yields can provide insight into what you might expect from dividends over the long term.

At the end of June 2022, the average yield of dividend-paying stocks in the S&P 500 (about 79% of companies) was 2.18%, but the yield of the S&P High Dividend Index, which focuses on 80 stocks that pay higher dividends, was 4.11%.[2]

Some Caveats

The flip side of dividend power is that dividend-paying stocks may not have as much growth potential as non-dividend payers that plow their profits back into the company. And there are times when dividend stocks may drag down, not boost, portfolio performance. Dividend stocks can be particularly sensitive to interest-rate changes. When rates rise, as in the current environment, higher yields of lower-risk, fixed-income investments may be more appealing to investors, placing downward pressure on dividend stocks. As long as a company maintains its dividend payments, however, lower stock prices could be an opportunity to buy shares with higher dividend yields.

Investing in dividends is a long-term commitment. Dividends are typically not guaranteed and could be changed or eliminated. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments offering the potential for higher rates of return also involve higher risk.

Stock funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) BrainyQuote.com, 2022; 2) S&P Dow Jones Indices, 2022

What the Red-Hot Job Market Means for Workers

The COVID-19 pandemic kicked off a severe labor shortage — and quite possibly the most worker-friendly job market in many years. Unpredictable demand shifts exposed pre-existing mismatches between the knowledge and skills of available workers and the tasks for which they are needed. The sheer number of available jobs has also been running far above the number of unemployed job seekers. For example, employers reported 11.4 million job openings in April, while there were only 6.0 million unemployed persons.[1]

This smorgasbord of open positions provides job seekers with more choices and more leverage. U.S. workers have been quitting their jobs at record rates, in many cases to join new employers offering higher pay, lucrative benefits, better working conditions, or the option to work remotely.[2]

Higher Wages

More intense competition for workers drove the average hourly wage up 5.5% for the year ending in April 2022, but inflation rose 8.3% over the same period, according to the Consumer Price Index (CPI).[3] Unfortunately, real wages, which are adjusted for inflation, dropped as prices spiked. Workers don't really benefit from wage gains unless they outpace inflation, because it cuts into their buying power.

Even so, labor shortages have been more acute in some industries, especially for lower-paying and in-person jobs, which led to bigger wage increases for some types of workers. For the year ending in April 2022, wages grew 11.0% in the hospitality and leisure industry and 7.4% in transportation and warehousing.[4]

Longer-Term Changes

The labor force has been aging and shrinking, and retirees' share of the U.S. population has been growing. Economists have been anticipating a wave of baby boomer retirements, some of which were accelerated by the pandemic. Between February 2020 and November 2021, up to 2.6 million more people retired than were expected to based on previous trends.[5]

Bigger paychecks could inspire some early retirees and stay-at-home parents to seek jobs, but labor force participation may never return to pre-pandemic levels. This means employers might need to change their hiring practices, reduce experience and education requirements, or provide training programs, opening the door to better-paying jobs for more workers. It's also possible that automation technologies will help fill the gap.

1-4) U.S. Bureau of Labor Statistics, 2022

5) *The Wall Street Journal,* March 15, 2022

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