THE EAGLE'S VIEW

AN INDEPENDENT PRACTICE

IN THIS ISSUE:

Paul J. Tully, CFP®, RICP®

At the beginning of the year, my chief worry was the market and economic impact of another Covid variant. I ended the first quarter not thinking about that at all, but fearful of the use, however unlikely, of nuclear weapons being used by Russia in Ukraine.

For the first 3 months of 2022, the Dow Jones Average was down almost 6%, as was the Bloomberg US Aggregate Bond Index. For the bond index, it was the worst quarter since the 3rd quarter of 1980 and for US Treasuries, the worst quarter since 1926 according to Barron's.

With stocks, I expect improvement as issues surrounding Ukraine, interest rates, inflation, and corporate profits get some clarity. It is likely going to be a bumpy ride for the next 6 months as fears of a recession, uncertainty in Ukraine, and ongoing inflation impact investor confidence. The Federal Reserve rate raising plan, which may result in 10 or more rate increases over the next few years, will raise the cost of everything that is financed as they endeavor to quell inflation. It's a difficult challenge.

Inflation persists in the 7% range with food and gas prices continuing at a higher rate than I have ever experienced before. Both are at least somewhat tied to the interruptions in supply chains due to Covid and the situation in Ukraine, but regardless, they are a very real personal expense.

I have commented to several people that in the past 15 years, a relatively short period in terms of US history, we had a near total collapse of the world banking system in 2008, the worst in 80 years. We had the worst global pandemic in 100 years and now have the most credible fear of nuclear weapons since I used to hide under my 5th grade desk in the 1960s.

And despite all of this, in many ways, life is better for more people than at any time in human history. We are making tremendous medical advances and developing cures and treatments for diseases that were once thought incurable. There is real progress being made on Alzheimer's and numerous cancers. I just read about a near term potential vaccine being developed for breast cancer. There is a lower percentage of people living in extreme poverty than at any time in world history.

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Economy & Investment Markets

Chris Tully, CFP®, RICP®, CIMA®

On the heels of a 3-year stretch of double-digit positive performance in the global stock market, the first quarter of the new year has brought about a rough start to 2022. Prior to the start of the year stock valuations were high relative to history, and while markets don't typically fall simply because valuations are stretched, a combination of factors including the Russian invasion of Ukraine, high inflation, rising interest rates, supply chain troubles, and an inversion of the yield curve – among other things – has driven prices down and volatility up. Stock markets staged a strong recovery in March; however, April (through the 14th) has brought about

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Technology and biotechnology are rapidly changing the way and how long we will live healthily.

As Charles Dickens wrote in A Tale of Two Cities, “It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness…” Dickens saw 2022 clearly!

Hopefully we will be seeing some resolution in Ukraine and led by the US, we will begin restoring that country to alleviate the incredible suffering of these past few months. It is a tragedy we can see in real time, and it is heartbreaking.

I don’t have much more to say presently, but to reiterate what I have been saying for a while - we are likely entering a period, I think it will be years not months, where progress in investment markets will be more volatile and less profitable than the last 10 years have been. Major firms including JP Morgan, Vanguard, and Goldman Sachs all are calling for rates of return much lower than the past 10 years and if correct, will lead to some uncomfortable conversations about the combination of longevity, income, and financing life with lower rates of return.

It will take redoubled efforts by our team as well as our clients to focus on risk and cost controls in an environment that will not be nearly as generous in terms of annual gains as we have experienced since 2009.

I don’t think investment markets will be bad, but they may be less forgiving in terms of speculation and volatility. Mistakes may be very expensive.

As I have advised people for 4 decades, you need to have a plan and not panic when the news/noise of the day appears to disrupt your plan. Markets are likely to be more volatile than we are used to, but in that environment, investments can still do quite well. Rising interest rates will be disruptive in the short-term, but a sign that our economy is strong enough to support higher interest rates, which eventually will help portfolios produce both income and growth. Higher rates will tame inflation.

This is the time of year I look forward to the Phillies season and several months after my initial enthusiasm, reality usually settles in, and we have another mediocre result. Not this year! While it’s unclear how well they will play defense (could easily be the worst defensive team in baseball) they signed several prodigious hitters in the off season, and they will score runs in bunches. They will be fun to watch, may see a lot of 14-13 games, but it will make for an enjoyable season. As I finish this letter, they started the season, first batter, with a homerun.
It will be exciting!

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further declines. Bonds – which have historically been a safe haven in times of stock turbulence – have continued to decline for the second straight year as interest rates have rapidly increased. Overall, whether stocks or bonds, US or foreign, markets were down in the 1st quarter of the year:

Index	Category	Year-to-Date (3/31)
S&P 500	US Stocks	-4.60%
MSCI ACWI	US and Foreign Stocks	-5.36%
Barclays US Aggregate Bond	US Bonds	-5.93%
Barclays Global Aggregate Bond	US and Foreign Bonds	-6.16%

Strategists at Raymond James remain optimistic. Covid cases and hospitalizations have fallen, unemployment is low, and the consumer is financially healthy overall. While the economic tailwinds we've enjoyed in the past year have become less dominant, they nonetheless continue to outweigh the headwinds. Per Michael Gibbs, Director of Equity Portfolio and Technical Strategy at Raymond James, on April 6th, *"The US consumer remains a bright spot for the economy, given its significant contribution to GDP. Overall, we continue to see total household net wealth significantly higher than the pre-pandemic trendline and up 13.4% YoY. Given our belief that the US consumer will remain healthy as the labor market continues to improve, we believe the strength of the consumer is enough for the US to avoid a recession in 2022 despite the mounting wall of worry with geopolitical events, inflation, and Fed tightening cycle."*

In the Raymond James "2022 1st Quarter Equity Market Update" released on April 6th, they view the "Base" case level of the S&P 500 hitting 4,725 by year-end. For context, the market closed at 4,359 on April 14th (4,530 at the quarter-end), so this would represent a 7.6% increase from current levels. The chart below also shows their "Upside" (12.3%) and "Downside" (-4.5%) cases:

Year End 2022 Price Target

	2022 EPS	Year End 2022 P/E Multiple	Year End 2022 Price Target
Upside	$ 235	21.00x	4,935
Base	$ 225	21.00x	4,725
Downside	$ 215	19.50x	4,193

Source: RJ Equity Portfolio & Technical Strategy

Base Case:

- Higher oil prices arising from the Russia/Ukraine geopolitical tensions serve as a tax to the consumer and lead to demand destruction amid a macro that was already normalizing (but still growing). Nonetheless, economic growth remains positive (as we believe the odds of a recession this year are low), albeit slower from the macro seen entering the year.
- Even if the conflict is short-lived, oil prices can stay elevated for some time given that the geopolitical tensions remain high.
- Equities could go lower in the near-term, but we expect exiting the year for the market to start discounting some moderation in inflation, a growth outlook that remains positive, and a Fed that has not overtightened/made a policy error. S&P 500 P/E multiple ends the year at the pre-pandemic level/5-year average of 21x. Biggest wildcards remain inflation and the Fed.

It's always important to remember that volatility is normal, albeit uncomfortable. We have experienced similar time periods in the past. The causes of volatility, along with negative returns, will change from time to time, but the markets have historically been resilient and have rewarded those who have buckled in and waited out the tough times. At Eagle Wealth Strategies, we do not believe timing the market – making large bets one way or another by dramatically shifting the allocation or liquidating significant amounts of one's portfolio – is an appropriate tactic for long-term investors, of which most of our clients are. It may provide emotional comfort in times of uncertainty, but timing both the sale and the re-purchase is a very difficult task, and one in which can lead to far greater losses if predicted wrong. Large intra-year declines – a drop in the stock market from a peak to bottom within a calendar year – have averaged -14.0% over the past 42 years. In that period the market has fin-

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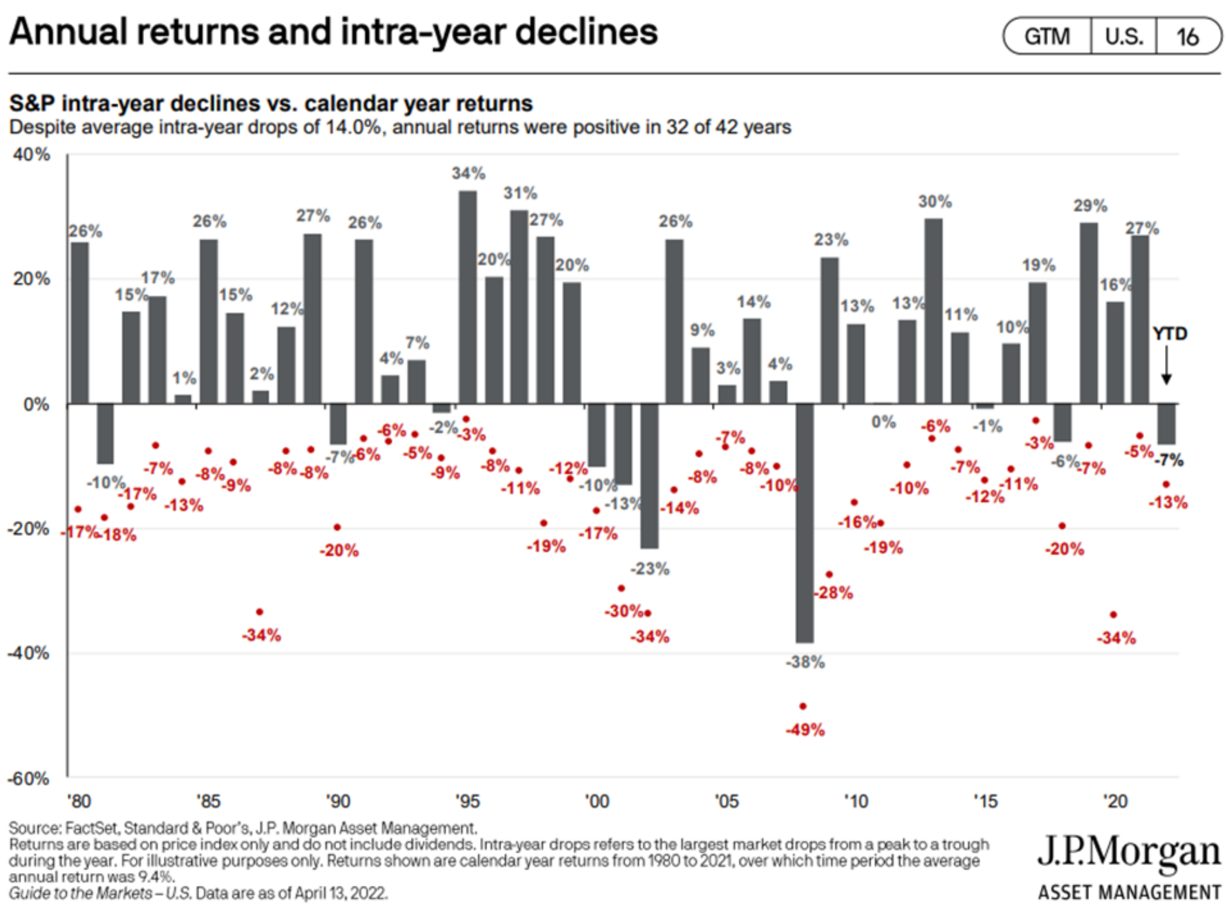
ished the calendar year 32 out of 42 times. The Covid crash of 2020 is a good example. From peak (mid-February) to bottom (late-March), the stock market declined by over 30%. From January 1st to December 31st, however, the market was positive double digits. This year may be one of the 32 positive years – or it may be one of the negative 10. Either way we know from history that while declines are unnerving, they happen from time to time, but the overall trend of investment markets is positive over the long haul.



Since last fall, we made several adjustments to our advisor-managed strategies. While we do not attempt to time markets – as mentioned earlier – we do believe that subtle shifts in allocation, adding categories, and occasionally replacing underperforming managers can be prudent when looking out over the coming years. In the fall, we made a series of changes to the conservative side of our allocations (typically represented by bonds) in anticipation of rising interest rates. In January, we made similar changes to the growth side of our allocations (typically represented by stocks) for similar reasons. Different types of stocks and bonds, different sectors and styles, and so forth, behave differently in different economic environments. While changes won't positively impact performance every day or every week, we believe the shifts we instituted will better position us for the next 3-5 years. If the outlook changes dramatically, we will adjust accordingly, otherwise we believe we have the right categories, the right mix of weightings, and the right managers to see us through into the future. The past 5- and 10- years have been a boon to stock investors, even with the occasional bouts of volatility and pullbacks. Our expectation is that returns will likely be lower over the next 5- and 10-year periods. With many clients relying on growth to keep up with inflation and sustain lifestyles throughout their lives, appropriately navigating periods such as these will be vitally important to one's success.

Federal and State Regulations Updates

Jessica L. Ortega, CFP, RICP®
Director of Planning

SECURE Act 2.0: Proposed Changes to Retirement Savings

In March, the House of Representatives approved the Securing a Strong Retirement Act of 2022 (also known as SECURE 2.0). The bill is on its way to the Senate where there is a similar bill with some differences. It's widely expected that some version will pass this use to enhance retirement savings; only time will tell which version will eventually get enacted.

Some of the key provisions include raising the age of required minimum distributions (RMDs) from retirement accounts, increasing and indexing the limit for catch-up contributions, and adding the ability to elect Roth contributions in SIMPLE and SEP IRAs. As always, we will keep you updated when the final law is enacted.

NJ 529 Plan Deduction

Effective for the 2022 tax year, New Jersey now provides a state tax deduction up to $10,000 per year for contributions made to a New Jersey 529 plan. Households whose gross income is $200,000 or less qualify for the deduction.

NJ Employer Plan Mandate

In March 2019, Gov. Murphy (NJ) signed the New Jersey Small Business Retirement Marketplace Act. The law requires qualifying New Jersey employers to automatically enroll their employees in the New Jersey Secure Choice Savings Program. Qualifying employers include profit and non-profit employers with at least 25 workers who have been in business for at least two years and do not offer their employees the ability to participate in a qualified retirement plan, such as a 401(k) or 403(b). Employee enrollment in the Secure Choice Savings Program began in March 2021, and employers were required to enroll their employees in the Program by the end of 2021. Employers with less than 25 employees may participate but are not required to do so. Only W-2 employees are eligible; independent contractors (1099 employees) are excluded from the requirement.

The New Jersey Secure Choice Savings Program is a state-sponsored retirement plan that automatically enrolls W-2 employees (part-time and full-time) to contribute 3% of their pay through payroll deduction to an IRA, though employees may choose to opt out of contributions. The maximum contribution is $6,000 per year for employees under 50 and $7,000 for employees 50 and older. The program does not allow for employer contributions.

Penalties for non-compliance with the new law are as follows:

- Written warning in the first calendar year
- $100/employee in the second year
- $250/employee in the third and fourth years
- $500/employee in the fifth year and beyond

If you have not yet taken action to ensure compliance with this law, we recommend contacting your payroll provider.

Operations Updates

Melissa Phillips
Operations Manager

Trusted Contact vs. Power of Attorney

As part of the account opening and financial planning process, you'll be asked if you'd like to add a Trusted Contact or if you have a Power of Attorney (or POA, for short). Below are details outlining a little more about these roles.

Trusted Contact

A Trusted Contact is an individual (or several – you can name up to five) who we can contact in limited circumstances. Examples of this would be concerns about mental capacity, unusual activity in your account, or that we simply cannot get a hold of you! It is suggested that each client has at least one Trusted Contact on file, regardless of age. It is encouraged, but not required, that the client choose an individual who is not associated with the account to be their Trusted Contact, including those already authorized on the account, such as the Power of Attorney. Think of this as your emergency contact – we cannot take direction from this person or provide any account-specific information.

Power of Attorney

A Power of Attorney is a legal authorization that allows a person, named the agent or attorney-in-fact, to act on your, the principal's, behalf. This document is usually drawn up by an attorney, but Raymond James also offers one that can be used for your accounts here. In either case, you choose what specific authorities you'd like your agent to have. There are several different types, the most important distinction being "non-durable" vs. "durable" – a non-durable POA ends if you become incapacitated, while a durable power of attorney remains in effect. Since most people name a POA in the event that they become diminished or incapacitated, a durable POA is generally recommended, although each situation varies. No matter the type, all Powers of Attorney end with the principal's death.

In the coming months, we are planning a campaign to ensure that our Trusted Contact and Power of Attorney records are up to date and accurate, but in the meantime if you're unsure of whether you've named individuals or would like to change them, please call the office and we'll be glad to review with you.

News at EWS

*Once again, **Paul**, on behalf of the entire team, has been named to the **Forbes Best-In-State Wealth Advisors** list. Although they only can list one person per team, we are a fully integrated team serving on behalf of our clients.*

*Pictured below are some of the members of the Junior Achievement Club of NJ, a non-profit organization committed to educating youth on financial literacy, work readiness, and entrepreneurship. 85 high school students participated by teaching financial literacy to over 1,300 students in 3 local elementary schools during this year's Junior Achievement Day. Our own **Anthony** is proud to have been the catalyst of the High School Heroes program that makes this invaluable education program possible.*

*Happy Easter(?) **Frank's** son, Frankie, was not exactly thrilled to see the Easter Bunny, but it sure made for a memorable photo!*

*The American Red Cross is reporting the worst blood shortage in over a decade. **Melissa** has challenged herself to give blood every time she's eligible and encourages you to do the same if you're able - she's sporting a big smile under the mask, she swears!*

AN INDEPENDENT PRACTICE

Five of our financial advisors – **Paul Tully, Chris Tully, Steffanie Lerch, Jessica Ortega, and David Koehler** – hold the CERTIFIED FINANCIAL PLANNER™ certification, and Paul, Chris, Steffanie and Jessica also hold the Retirement Income Certified Professional® certification. The CFP® credential is awarded to a select number of financial professionals who satisfy the CFP® Board of Standard's rigorous educational and examination requirements, and who agree to adhere to its high level of ethical and professional standards. In order to receive the RICP® designation, one must meet experience requirements and ethic standards, successfully complete three courses which include rigorous tests to pass, and agree to comply with The American College Code of Ethics and Procedures.

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