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Second Quarter 2022 Update and Commentary

Generating safe returns for our clients is the primary goal at Eliot Finkel Investment Counsel. Successful investing requires patience and a long investment horizon. Our focus on company fundamentals and economics backed by 48 years of experience and in-house research continues to produce superior results. This, plus the personal service we provide, explains why our clients have been with us, on average, over 17 years.

Since the dot com bubble broke in 2000, we have generated 7% annual returns for our clients, significantly outperforming both the S&P 500 (4%) and tech heavy Nasdaq (4%). An investment with us in March 2000 would now be worth 79% more than an equal investment in the S&P 500*. The companies in our portfolios have excellent long-term prospects, are fundamentally strong and financially secure.

Inflation has become a major economic concern, rising from 2.6% in March of 2021 to 9.1% today. In response, the Federal Reserve raised interest rates by 1.5% last quarter and indicated it will continue raising rates by at least 0.5% after each meeting until further notice. The Fed meets eight times a year,

Economists believe controlling inflationary expectations is extremely important for a strong economy. Expectations have surpassed 5%, well beyond the Fed's 2% target. As a result the Fed has committed itself to raising rates until expectations moderate, thereby reducing the potential for a painful inflationary spiral. The Fed's hawkishness will reduce economic growth going forward and may trigger a recession.

Meanwhile, stocks entered a bear market in the first half with the S&P 500 down 21% and the Nasdaq down 31%, their worst performance since 1970. The bond market also fell 9%. Nevertheless, bear markets do not always lead to recessions. As Paul Samuelson (the first economist to win a Nobel prize) said, Wall Street has predicted 9 of the past 5 recessions. In fact, it has now predicted 17 of 9 recessions.

Nevertheless, there are reasons to be optimistic. The economy remains strong. The unemployment rate, at 3.6%, is near a record low. There are 11.3 million job openings but only 5.9 million workers seeking jobs. Corporate and household debt, as a percent of GDP (Gross National Product) are less than they were a decade ago. Banks are well capitalized and existing mortgages are grandfathered in at low rates.

Businesses are adjusting their supply chains and increasing their inventories to "just in case" from "just in time." Our European allies have learned, as we have, the importance of reducing economic dependence on unfriendly nations. Together we are lowering our reliance on Russian energy and Chinese manufacturing. Further, Europe is uniting in the face of Russian aggression as well as expanding NATO with the addition of Finland and Sweden.

Whether or not we enter a recession this year or next any downturn should be relatively mild due to the factors cited above. Further, the changes we are making today will build a stronger, more stable economic future. Economic cycles are inevitable, but we are well prepared for this one and the Fed is committed to minimizing the long-term damage.

For more information please call 310-271-2521 or visit our website at efinvest.com. Thank you for your interest.

* Past performance is no guarantee of future results and does not preclude the possibility of loss.