IMPACT WEALTH MANAGEMENT

WELLS FARGO ADVISORS FINANCIAL NETWORK

A Second Decade Fight

My wife and I were watching a standup comedian recently who had a unique observation about marriage. In their opinion, most of the spats couples have can be tied to one issue (money or family or chores or etc.) and have a lifespan of under an hour between flare up and make up. A "second decade fight" they explained, was entirely different.

These are reserved for couples who have been married for at least twenty years, tend to be tied to multiple issues (money and family and chores and etc.), and can last hours or even days before settling down. The comedian continued by saying what especially makes a "second decade fight" different from a "newlywed fight" is that since the couple has spent so much time together, each spouse knows exactly what to say to really frustrate the other spouse.

Looking Back

In my opinion, 2022 was a second decade fight. You had the argument (stock market falling), it felt like it lasted a long time, was about multiple issues (rising inflation, rising interest rates, pricing pressure on home buyers, plus a rapid change in where consumers were spending their money) and most importantly, one party (the bond market) knew exactly how to frustrate the other party (the investor).

The F/U Factors

Enter fear and uncertainty. The bigger the pain, the more F/U factors creep in and become harder to push out. I'm often asked the same questions today that I was asked six months and even a year ago such as: Is the economy heading into a recession? Are home prices going to crash? Will consumers stop spending?

Looking Ahead

The latest Gallup survey reports 61% of Americans own stocks either directly in a brokerage account or indirectly such as mutual funds in their 401ks or IRAs. Although this number is up from the 56% reported in 2021 and is the highest it has been since 2008 it is still not as high as the 66% of Americans that own a home according to the most recent data from the St. Louis Federal Reserve.

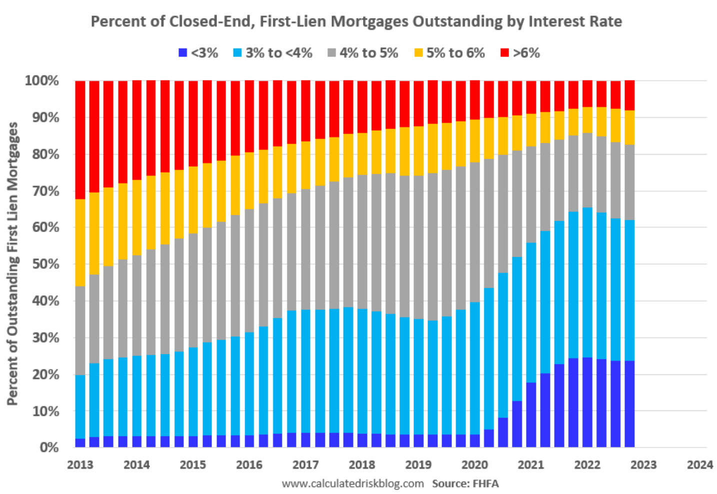
This means the housing market likely has a greater impact to the average American's net worth and spending pattern than the stock market.

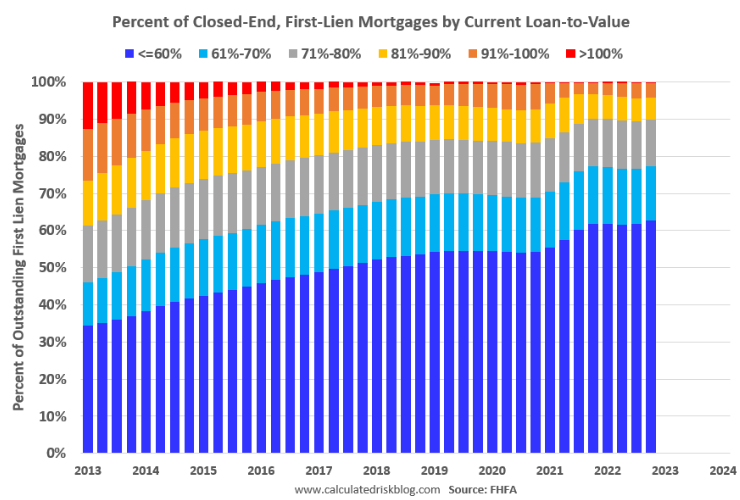
Based on the data from the below four charts as well as other sources, it is also why I'm able to keep my fear and uncertainty at bay.

The chart on the left show percentages of outstanding mortgages by interest rates.

When mortgage rates dropped in 2020, many homeowners took out new mortgages and/or refinanced existing ones and now approximately 63% of people with mortgages have fixed rates at 4% or less. Having a low long-term fixed rate creates a disincentive to sell and move into a new house when current mortgage rates are hovering between 6-7%. This is keeping home inventory down.

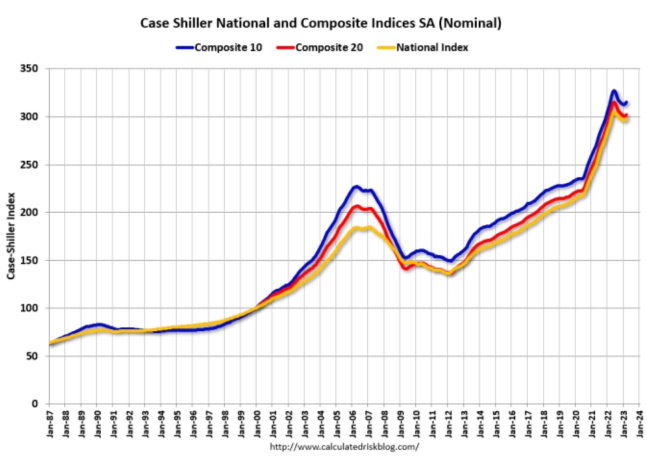
The chart on the right shows the percentage of mortgages by their loan-to-value. A high loan-to-value indicates the homeowner has very little equity. As the chart shows, the average home owner has benefited greatly from the rising prices over the last few years and now sits on a substantial amount of equity.

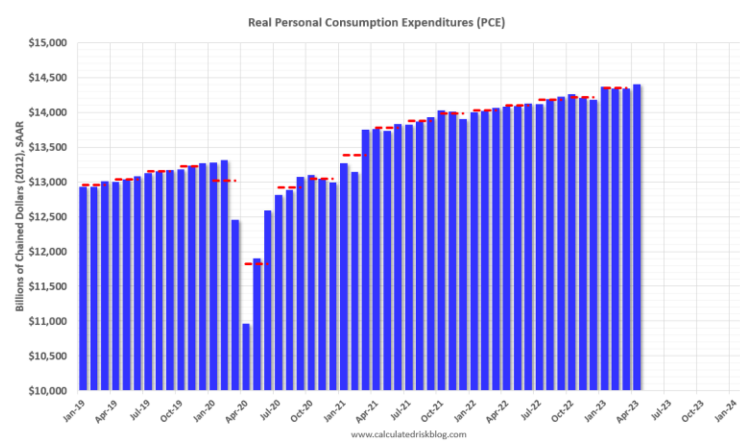




The chart on the left shows the average home price as measured by the Case-Shiller Index. Yes, it has declined recently, but it is still up dramatically since the lows of almost ten years ago.

The chart on the right shows consumer spending as measured by Personal Consumption Expenditures. The bars show the monthly data and the red dashes are the quarterly averages.





If you have any questions, please reach out. My team and I are here to help.

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