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JUNE 2022

# MARKET PERSPECTIVE

## Gathering Clouds

*By James M. Walden, CFA*

Jamie Dimon, Chairman and CEO of JPMorgan Chase, made headlines recently when he warned attendees at a conference to brace for an economic “hurricane.” His comments often grab attention because he runs the largest bank in the country.

We don’t know if a hurricane is coming our way. No one does. But we see gathering clouds.

The concern is today’s high inflation and the Fed’s efforts to tame it by unwinding its massive Covid-era stimulus. The idea is to raise borrowing costs just enough to cool the economy and lower inflation without tipping it into a recession.

Easier said than done. If the Fed raises too much, it risks choking off the economy. If it doesn’t tighten enough, the Fed won’t succeed in bringing down inflation. Related uncertainty is a recipe for market volatility.

It’s likely the Fed is in the early days of its tightening cycle. And it’s coming as we already see meaningful economic headwinds.

We’re paying particularly close attention to housing. National housing affordability continues to worsen as mortgage rates rise while home prices continue to set new records. According to the most recent data available from the Federal Reserve Bank of Atlanta, the median household needed 38.6% of its income to cover payments for the median-priced home in March. That’s up from 32.6% in December 2021 and is the highest percentage since 2007.

We’re not calling for a housing crash. Overall, home prices usually remain pretty sticky. And today, favorable demographics and extremely limited housing supply argue for a floor in home prices. Further, mortgage lending is much more disciplined now compared to the days leading up to the Global Financial Crisis.

But worsening affordability, coupled with a lack of inventory, seems to be having an impact on housing activity. The Mortgage Bankers Association reported that mortgage demand fell to a 22-year low. And declining housing activity can affect jobs in construction, finance, and real estate.

Part of our job is to determine whether to position client portfolios for offense or defense. We’ve been playing defense for most of the year. Given the gathering clouds, we think it’s prudent to err on the side of caution and keep playing defense.

## DASHBOARD

- Business Cycle
- Trend
- Valuation



## Bullish

- Significant pent-up consumer demand
- Strong jobs environment
- Relatively healthy consumer finances
- China's economy reopening
- Reasonable equity valuations



## Bearish

- High global inflation
- The Fed and other global central banks tightening
- Slowing economic growth
- Russia/Ukraine war and other geopolitical concerns
- Equities in a downtrend



### JAMES WALDEN, CFA

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As Partner & Chief Investment Officer, James Walden strives to maximize our clients' long-term, risk-adjusted portfolio returns. This includes determining strategic and tactical asset allocations, as well as specific investment analysis and prudent rebalancing. Jim is also a partner & management team member. His expertise includes advanced investment research and valuation, and he is passionate about his role in helping clients reach and exceed their financial goals.

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