VOLUME 28, ISSUE 2, 2ND QUARTER 2022

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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

What Do Rising Interest Rates Mean for Your Money?

On March 16, 2022, the Federal Open Market Committee (FOMC) of the Federal Reserve raised the benchmark federal funds rate by 0.25% to a target range of 0.25% to 0.50%. This is the beginning of a series of increases that the FOMC expects to carry out over the next two years to combat high inflation.

Along with announcing the current increase, the FOMC released economic projections that suggest the equivalent of six additional 0.25% increases in 2022, followed by three or four more increases in 2023. Keep in mind that these are only projections and may not come to pass. However, they provide a helpful picture of the potential direction of U.S. interest rates.

What is the federal funds rate?

The federal funds rate is the interest rate at which banks lend funds to each other overnight to maintain legally required reserves within the Federal Reserve System. The FOMC sets a target range, usually a 0.25% spread, with two specific rates that act as a floor and a ceiling to push the funds rate into that target range. Although the federal funds rate is an internal rate within the Federal Reserve System, it serves as a benchmark for many short-term rates set by banks and can influence longer-term rates as well.

Why does the Fed adjust the federal funds rate?

The Federal Reserve and the FOMC operate under a dual mandate to conduct monetary policies that foster maximum employment and price stability. Adjusting the federal funds rate is the Fed's primary tool to influence economic growth and inflation.

The FOMC lowers the federal funds rate to stimulate the economy by making it easier for businesses and consumers to borrow, and raises the rate to combat inflation by making borrowing more expensive. In March 2020, when the U.S. economy was devastated by the pandemic, the Committee quickly dropped the rate to its rock-bottom level of 0.00%–0.25% and has kept it there for two years as the economy recovered.

The FOMC has set a 2% annual inflation goal as consistent with healthy economic growth. The Committee considered it appropriate for inflation to run above 2% for some time in order to balance the extended period when it ran below 2% and give the economy more time to grow in a low-rate environment. However, the steadily increasing inflation levels over the last year — with no sign of easing — have forced the Fed to change course and tighten monetary policy.

How will consumer interest rates be affected?

The prime rate, which commercial banks charge their best customers, is tied directly to the federal funds rate and generally runs about 3% above it. Though actual rates can vary widely, many other types of credit (small-business loans, adjustable-rate mortgages, auto loans, credit cards, etc.) are often linked to the prime rate, so the rates on these types of loans typically increase with the federal funds rate. Fed rate hikes might also put upward pressure on interest rates for new fixed-rate home mortgages, but these rates are not tied directly to the federal funds rate or the prime rate.

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WIN A $25 GIFT CARD

to your choice of Powell's or Amazon! (See page 2 for details)

Congratulations to our most recent winner:

Angie M. from Catholic Charities

Visit ***thecommco.com/ commerce-concepts*** *for the answer to last issue's question.*

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

*Source:
Raymond James Financial Services*

To be entered into a drawing to win a

$25 GIFT CARD,

email free@thecommco.com with the answer to this question:

What do you call the interest rate that commercial banks charge their best customers?

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Market Update

Through March 31, 2022		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	-4.10%	7.11%	13.40%	12.77%
Large Company US Stocks	S&P 500	-4.60%	15.65%	15.99%	14.64%
Small Company US Stocks	Russell 2000	-7.53%	-5.79%	9.74%	11.04%
Non-US Stocks	MSCI EAFE (Gross Div)	-5.79%	1.65%	7.23%	6.77%
US Bonds	Bloomberg US Aggregate	-5.93%	-4.15%	2.14%	2.24%
Cash Alternatives	ICE B of A 3 Month US Tsy Bill	0.04%	0.06%	1.13%	0.63%

Economic Snapshot

Gross Domestic Product (GDP)
GDP growth is expected to moderate (relative to 2021) but remain above a long-term sustainable pace in 2022.

Employment
Nonfarm payrolls are still below where they were before the pandemic, but labor demand is strong. Better wages should lure many of those on the sidelines back into the workforce.

Monetary Policy
Behind the curve on inflation, the Fed has begun to raise short-term interest rates and is expected to move faster if inflation fails to moderate. This raises the risk of overdoing it, leading to a possible recession in 2023.

Housing and Construction
Housing demand remains strong, but supply and affordability issues are constraints. Mortgage rates have picked up (although still relatively low by historical standards).

Manufacturing
Supply chain difficulties, materials shortages, and labor issues have continued, restraining growth, but we should see some improvement in 2022.

Inflation
Price increases have continued to broaden. We should see some rollback in prices of durable goods, but inflation in services (which account for more than half of spending) has been picking up.

Investment Strategy Quarterly: Published by Raymond James and Associates, April 2022. For a complete PDF copy of the April 2022 issue of Investment Strategy Quarterly, click here or email newsletter@thecommco.com.

March Market Review

- The volatility of recent months continued in March, driven by geopolitical events that are unlikely to dissipate soon, a more hawkish Federal Reserve, and higher prices. Despite headwinds, domestic equity markets rallied toward the end, making up for some of the earlier losses. The general economic backdrop remains favorable as U.S. consumers continue to spend despite rising prices, manufacturing and business spending remain healthy, and the labor market remains robust.

- The Russian invasion of Ukraine has lifted oil prices globally, exacerbating inflation and prompting renewed interest in alternative energy sources.

- Earnings trends remain solid and valuation multiples have become more compelling. In addition, we believe that higher Treasury rates coupled with wide spreads and increased municipal/Treasury ratios should bode well for income buyers in both the corporate and municipal markets. Overall, we believe that volatility tied to geopolitical risk is likely to persist over the medium term and adds complexity to the global economic outlook. Despite uncertainty, the U.S. economy looks to have room to grow, and higher equity prices seem likely.

For additional asset allocation and disclosure information, please click here or visit the Resources section of our website at thecommco.com

The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Strategic Asset Allocation Models

As of April 2022

Equities
Fixed Income
Cash Alternatives

	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**30%**	**50%**	**67%**	**83%**	**98%**
Equity allocation comprises:					
U.S. Large Cap Blend	20%	24%	29%	35%	41%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	3%	5%	7%	8%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	10%	12%	15%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**68%**	**48%**	**31%**	**15%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	45%	32%	21%	12%	0%
Investment Grade Short Maturity	13%	7%	5%	0%	0%
Non-Investment Grade (High Yield)	7%	6%	5%	3%	0%
Non-U.S. Fixed Income	3%	3%	0%	0%	0%
Multi-Sector Fixed Income	0%	0%	0%	0%	0%
Alternative Investments	**0%**	**0%**	**0%**	**0%**	**0%**
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**2%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

Retirement & Investment Services

5440 SW Westgate Drive, Suite 110
Portland, OR 97221
thecommco.com

tel 503-203-8585
fax 503-203-8590
toll 800-203-8510

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Although rising interest rates make it more expensive for consumers and businesses to borrow, retirees and others who seek income could benefit from higher yields on savings accounts and CDs.

What about bond investments?

When interest rates rise, the value of existing bonds typically falls. Put simply, investors would prefer a newer bond paying a higher interest rate than an existing bond paying a lower rate. Prices on longer-term bonds tend to fluctuate more than those with shorter maturities, because investors may be reluctant to tie up their money for an extended period if they anticipate higher yields in the future.

Bonds redeemed prior to maturity may be worth more or less than their original value, but when a bond is held to maturity, the bond owner would receive the face value and interest, unless the issuer defaults. Thus, rising interest rates should not affect the return on a bond you hold to maturity, but may affect the price of a bond you want to sell on the secondary market before it reaches maturity.

How will the stock market react?

Equities may also be affected by rising rates, though not as directly as bonds. Stock prices are closely tied to earnings growth, so many corporations stand to benefit from a more robust economy, even with higher interest rates. On the other hand, companies that rely on heavy borrowing will likely face higher costs going forward, which could affect their bottom lines.

The stock market reacted positively to the initial rate hike and the projected path forward, but investors will be watching closely to see how the economy performs as interest rates adjust — and whether the increases are working to tame inflation. The market may continue to react, positively or negatively, but any reaction is typically temporary. As always, it's important to maintain a long-term perspective and make sound investment decisions based on your own financial goals, time horizon, and risk tolerance.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The ICE BofAML 3-Month US Treasury Bill index consists of a single issue that is purchased at the beginning of the month and held for a full month. At month's end, that issue is sold and rolled into a newly selected issue, which is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. The selected issue must have settled on or before the month-end rebalancing date. Past performance may not be indicative of future results. An investment cannot be made in these indexes. The performance mentioned does not include fees and charges, which would reduce an investor's returns.

*Source: Raymond James
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