SUMMIT CAPITAL
Investment Management

April Commentary

April 11, 2022

After dropping nearly 12% during the first two months of 2022, the stock market has regained half of its decline. We are about 6% lower than year-end, and it is certainly not unexpected after three years of above average returns for the stock market.

Inflation and rate hikes have dominated the economic headlines. In March, the Federal Reserve raised interest rates by 0.25% with expectations of total hikes of 2.0% to 3.0% by year-end.

The Federal Reserve is battling high inflation. With prices spiking, the assumption is an increase in rates will cool demand and cause prices to fall. Mortgage rates provide a good example.

In January, you were able to get a 30-year fixed mortgage at a 3.00% interest rate. Your monthly payment on a $300,000 mortgage was about $1,500 per month. Today, that same mortgage will cost you $1,875 per month because mortgage rates have jumped to 5.0%.

One result is people will buy less expensive properties to stay within their budget. The person who wants to pay $1,500 per month can now afford a house at $250,000 versus the $300,000 house just a few months ago. The second ramification is that homeowners may need to lower their asking prices in order to attract buyers.

A slowdown in housing means less demand for lumber, refrigerators, HVACs, and more. This will reduce demand and lower prices in certain products and industries.

While higher interest rates may not decrease the cost of gas or food, they are already having an impact on the economy. Rising rates will reduce demand, and hopefully the Fed will make adjustments to not slow the economy so much as to cause a recession.

If you have any questions, we can be reached by phone at 216-539-8444 or by email.

Best Regards,

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