MH & ASSOCIATES • SECURITIES MANAGEMENT CORPORATION

INVESTMENT VIEWS

JANUARY 31, 2023

LOWER INFLATION...VIA CHANGING HOW IT IS COMPUTATED

One of the functions of the Bureau of Labor Statistics (BLS)is to calculate what inflation is and express it via the Consumer Price Index (CPI). Late last year the BLS changed some of the methodology in the way they compute CPI. This is not uncommon as changes frequently occur to their methodology, often having the effect of hiding or burying real inflation. Therefore, unsurprisingly, the forthcoming changes will have a significant positive effect (reducing) on the inflation numbers.

Starting with the January 2023 data, which will be reported sometime in February, the BLS plans to update the weights annually for the Consumer Price Index based on a single calendar year of data, using consumer expenditure data from 2022. This reflects a change from the prior practice of updating the weights using two years of expenditure data from 2021 and 2022.

The year 2021 had relatively low CPI numbers and 2022 had meaningfully higher inflation numbers. Thus, this year's comparison will only be against the higher 2022 data and will produce a much lower CPI number for 2023. If nothing else changes, it is estimated that the inflation number could be mechanically lowered 2-3% by year-end due to this change alone. We expect to start seeing the positive impact in the inflation numbers beginning with the March CPI data which will be reported by mid-April.

This potential could be a meaningful development not only for the financial markets but it could give the Federal Reserve the political cover to pause rate hikes and then possibly even cut rates later in 2023! Unfortunately, this will end up hurting consumers and those on fixed incomes as toying with numbers will not change reality.

GOLD RALLY

Is It The Real Deal?

Precious metals have had a strong move since late last year. After a brutal sell-off that began in May, gold and silver seemed to have bottomed in the final months of 2022. We wonder aloud whether this rally is another short term move or if it is something that will be longer lasting and of greater significance to investors.

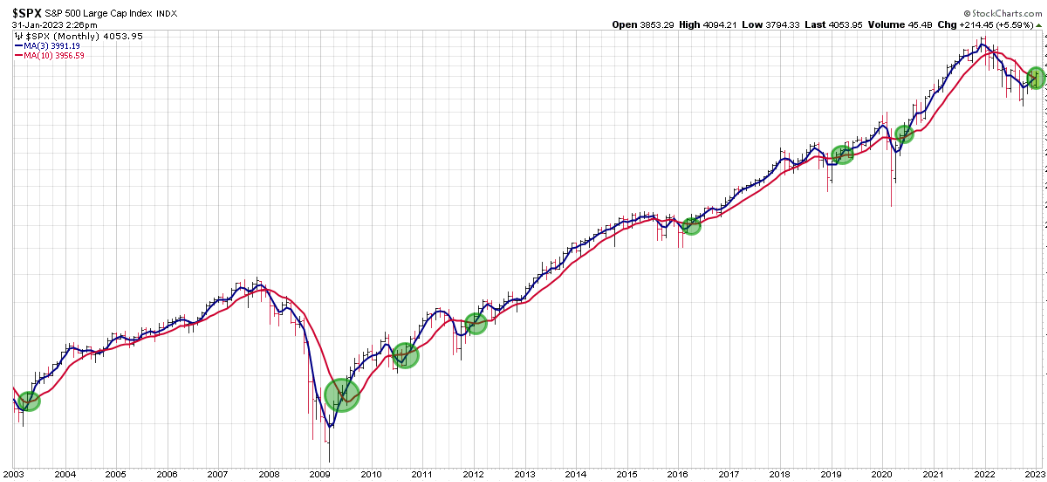
At this time, we do think that fundamentals appear to aligned with a longer lasting move upwards. The confluence of economic, financial and geopolitical factors seem to all point toward higher prices in the longer term. It seems clear that as authorities grapple with inflation, high government debt levels and the potential for economic issues such as stagnant GDP and higher unemployment, US investors will seek assets that protect them against uncertainty. Also, increasing tensions and actual conflict seem to be driving international demand for gold, both officially (central banks and governments) and privately, among individual investors.

That said, we recognize that sometimes what seems clear is not actually right. Precious metals prices are driven by a variety of factors and often they can surprise investors both ways. Therefore, our approach will continue to be opportunistic, buying on weakness and taking some profits after strong moves.

TECHNICALLY *Speaking*

End of the Bear?

The current bear market which started in earnest at the end of 2021 could be technically coming to an end. The chart below shows a monthly chart of the S&P 500 and to major trendlines, the 3-month moving average and the 10-month moving average. Moving averages are used to remove the "noise" from the normal volatility of the market. Even on a monthly chart, the market can appear quite noisy and these averages give a clearer view of the phase the market is in. When the shorter moving average (the 3-month in this case) is below the longer, the market is in a downtrend/distribution phase and when the shorter is above the longer, we are in a bull/accumulation phase. When these averages cross they tend to be very important inflection points. Marked in green below are the times when the 3-month has climbed back above the 10-month. While there was a false breakout (Q4 2015) which eventually led to lower lows in the market, in general, the market has shown impressive gains in the aftermath. Since moving averages lag the actual movement of the market, you may miss out on some of the initial recovery waiting for the crossover, but you gain some confirmation that the move up is the starting of a new longer term trend.



INVESTOR EDUCATION

Bond Prices and Bond Yields

It has been several years since bonds of any kind provided an attractive return. That all changed in 2022, since inflation forced the Federal Reserve to aggressively raise interest rates. Now, investors can buy US Treasuries that pay nearly 5%! That is a real alternative to stocks and other more risky investments.

Investors need to understand a basic relationship between bonds prices and bond yields as we have been adding bonds to portfolios over the past year. Frequently, a bond will have a stated interest rate that it pays on a regular basis. However, the stated interest rate is much different than the actual yield of the bond because the price of the bond will determine what the ultimate yield.

At maturity, most bonds will `be valued at “par” or 100. At various times before maturity, the price of the bond may be greater than or less than 100. If it is greater than 100, a bond is trading at a “premium” and will yield something less than the stated interest rate and if the price is less than 100, the bond is trading at a “discount” and the yield will be greater than the stated interest rate.

Investors need to keep this in mind when they see a bond in their portfolio and wonder why the interest rate seems so low, or perhaps too high. **The price of the bond, whether trading at a premium or discount, must be included in the investor’s evaluation.**

& Associates

MH & Associates Securities Management Corporation
2888 Loker Avenue East, Suite 318 • Carlsbad, CA 92010
23901 Calabasas Road, Suite 2005 • Calabasas, CA 91302
(626) 440-9694 • www.mhinvestments.net