



FINANCIAL FOCUS:

A Pegasus Newsletter[©]

www.pegasusassetmgt.com

Dear friends, after only one quarter gone by for 2022, many of us feel like there has been a year's worth of consternation. As I discussed in last quarter's newsletter, the Federal Reserve, Covid and geopolitical iterations would be at the heart of this year's issues, but sadly the geopolitical has turned into a full-scale war. Back in December few were expecting a war, and no one was expecting its length or severity. We all pray for its peaceful and swift resolution and our hearts go out to the extraordinarily brave and resilient Ukrainians.

For the markets there are clearly a lot of moving parts. However, all avenues seem to be leading to the inflation/higher rates scenarios. The continuing supply chain issues of Covid, the Fed's tightening of monetary policy and severe sanctions on Russia are all contributing to interest rate expansion. The future outcome for investors due to higher rates is less clear. We have already passed through a correction for the S&P 500 and a bear market for the Nasdaq composite. Where we move in the short term is forever hard to predict but here at Pegasus we are watching closely and are always available to discuss and address your questions and concerns. By, Rodd D. Berro

STARTING OUT UNEVEN

The first quarter of 2022 was a rollercoaster ride that ended far better than it appeared to be heading just a few weeks earlier. The S&P 500 fell a manageable 4.9%, with the Dow Jones Industrial Average following suit dropping 4.6% for the year to date. The Nasdaq Composite

had a rougher time tumbling 9.1% although recovering from down 20% on Pi day (March 14th). The Russell 2000 small cap index was similar to the Nasdaq, giving up 7.8% for the quarter. The bond market also had considerable volatility with the 10-year Treasury ending at 2.33%, up dramatically from 1.51% on 12/31 and the 30-year finishing at 2.45% up from 1.91%. Subsequently, 30-year mortgage rates averaged 4.94% at the end of March compared to only 3% in the beginning of December. Gold ended the quarter at \$1949.20 per ounce, up 6.7 percent from the end of last year. Oil was again a big winner finishing at \$100.28 per barrel on March 31st, up exactly 1/3 or 33.3% from December 31. Unfortunately, natural gas had the largest gain of all rising 51.26% for the year, adversely reflected in home heating and electric bills during this year's winter.

INTEREST RATES EFFECTS ON EQUITIES

Is it written in stone that equities suffer when interest rates rise? First of all, nothing is written in stone when it comes to the stock market. However, there is a mathematical relationship between stock prices and interest rates. Let's say you want to buy the best candy store in your city that has net earnings each year of \$48,000. If the current risk-free rate of return (the 10-year Treasury Note) is at 1.5% and you wish to make 6% more than that (a return of 7.5%) to compensate for the risk of owning the candy store, then you would pay \$640,000 for the store. \$640,000 at 7.5% per/year is a return of \$48,000, whereas a 1.5% return on \$640,000 is only \$9,600. (Continued on next page...)

(over, please)



INTEREST RATES EFFECTS ON EQUITIES (continued from front)

To put this in terms of the stock market, the P/E ratio (price to earnings) for the candy store would be 13.33. 640,000 (price) divided by 48,000 (earnings). If, however, 10-year treasury yields rise to 2.5% than you would need to get an 8.5% return on your money to give you the 6% risk compensation you desire. Now you would only pay \$564,706 for the store, because \$564,706 at an 8.5% rate of return is equal to the \$48,000 profit. The new P/E ratio for the candy store has dropped to 11.76; 564,706 (new price) divided by 48,000 (earnings). So, by simply raising the risk-free rate of return you have consequently lowered the P/E ratio and therefore the price of the stock. This is what the markets call P/E compression. Of course, there are many more variables involved. If rates are rising due to inflation, then so should the candy stores profit. Possibly the buyer would be willing to take an 8% return rather than 8.5% because they feel the candy store will grow. The markets may feel the rise in rates is temporary and therefore will keep the P/E ratio where it was at 13.33. Equities are not calculated by a simple mathematical formula, but there does exist an explicit relationship between the bond market and the stock market and hence the Federal Reserve.

Taxes & Retirement Account Contributions

- Please make all 2021 tax payment requests or IRA contributions as soon as possible.
- Annual Gift Tax exclusion for 2022: \$16,000
- Annual IRA & ROTH IRA contributions for 2022: \$6,000 per year if under age 50; \$7,000 if 50 years old or older. The total can't be more than your taxable compensation for the year.
- Employee Salary Deferral Limits for 401(k) and 403(b) plans in 2022: Maximum contribution \$20,500 if under age 50; \$27,000 if 50 years old or older.
- SEP IRA contribution limit for 2022 is the lesser of 25% up to \$305,000 of compensation or \$61,000
- Simple IRA contribution limit for 2022 is \$14,000 if under age 50; \$17,000 if 50 years old or older

New Website

<https://www.pegasusassetmgt.com/>

Our new website launched in March 2022. It includes direct links to the Client Portal, Schwab Alliance website, and Charles Schwab video library, as well as a Client Resources page with step by step instructions for:

- depositing & withdrawing money
- using Schwab Mobile deposit
- mailing in physical checks for deposit
- preparing for & responding to security issues

Stock Market Holiday Calendar

The stock market, bond market and our office will be closed on the following days:

Friday, April 15, 2022 - Good Friday
Monday, May 30, 2022 - Memorial Day
Monday, June 20, 2022 - Juneteenth



Financial Focus: A Pegasus Newsletter

©1995-2022 Pegasus Asset Management, Inc.

Exclusive of charts

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Pegasus Asset Management, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from Pegasus Asset Management, Inc.. Please remember to contact Pegasus Asset Management, Inc., **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services. Pegasus Asset Management, Inc. is neither a law firm nor a certified public accounting firm and no portion of the newsletter content should be construed as legal or accounting advice. A copy of Pegasus Asset Management, Inc.'s current written disclosure statement discussing our advisory services and fees is available for review upon request.