DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
30,775.43	11,028.74	3,785.38	1,707.99	8,448.20	105.76	0.9538	2.98	1.50-1.75	4.75

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"Whatever Method You Use To Pick Stocks, Your Ultimate Success Or Failure Will Depend On Your Ability To Ignore The Worries Of The World Long Enough To Allow Your Investments To Succeed. It Isn't The Head But The Stomach That Determines The Fate Of The Stock Picker"
~Peter Lynch~

Whipping Inflation

As the late great economist Milton Friedman used to say, "Ultimately inflation is, always and everywhere, a monetary phenomenon. And so the key to reducing the inflation we're experiencing today, the highest inflation in forty year, is the Federal Reserve raising short term interest rates. The central importance of monetary policy doesn't mean other policies can't play any role at all wrestling inflation under control. Central banks don't just exist on the blackboards of academic macroeconomists; they exist in the real world where other officials adopt policies that sometimes make central banks' jobs easier and sometimes make them harder. Key issues are both spending and regulation. When the federal government spends money like a drunken sailor, as it did during COVID lockdowns, a central bank policy that sets short-term interest rates at essentially zero is going to generate a larger increase in the money supply and, in turn, a larger increase in inflation. One way to help the Fed more easily achieve its goal of reducing inflation would be for Congress and the President to find ways to reduce spending. Entitlements, discretionary spending, you name it. No, we're not being naïve; we know this isn't happening in 2022, but it would make inflation easier to fight. In addition, regulations that stifle economic growth could be trimmed, particularly in the energy sector, where the government has directed resources toward politically favored but relatively inefficient "renewables," like wind and solar, while stifling development of nuclear power, for example. A world with cheaper and more abundant energy supplies is one in which real economic growth is faster, which means less of the increase in the money supply winds up generating inflation. Policymakers should commit to making sure the public knows another COVID related lockdown is not in the cards. Last, but never least, policymakers should consider cutting tax rates to boost work and investment which always help boost the economy and make inflation easier to control. Brian S. Wesbury—Chief Economist; Robert Stein, CFA—Deputy Chief Economist

Treasury Market Yields	6/30/2022	12/31/2021	12/31/2020
2 Year	2.92%	0.73%	0.13%
5 Year	3.01%	1.26%	0.36%
10 Year	2.98%	1.52%	0.93%
30 Year	3.14%	1.90%	1.65%
SP 500	1.68%	1.26%	1.60%
Commodities			
Oil ($bal)	$105.76	$75.21	$48.52
Gold ($/oz.)	$1804.10	$1827.50	$1893.10
CRB Index	$291.15	$232.37	$167.80

America's Top Executives Think The Economy Will Tip Into Recession

Several American companies are again readying their recession playbooks as rapid inflation and geopolitical factors raise the risk of another economic downturn. CEO "confidence" showed a sharp decline in optimism over the economic outlook in the second quarter of 2022. Executives across industries have painted bleak pictures on future earnings. The culprits behind this gloomy sentiment? It's all macroeconomic: COVID related shutdowns in China, disruptions linked to the Russian invasion of Ukraine, and the easy money policies from the Federal Reserve. This current cocktail of macroeconomic concerns has pushed companies to lower guidance, and investors have responded by dumping stocks. For investors, the concern isn't just how profitable a company is in the current quarter, but how profitable they will be in the future. Companies with a large presence in overseas markets saw a massive disruption from the Russian invasion of Ukraine War, which not only disrupted the supply chain for metals and grains, but raised the price of oil and gas worldwide as well. In China, a zero COVID policy led to shutdowns across large portions of the world's second largest economy. Inflation remains the big story for the U.S. economic outlook, with prices increasing at paces unseen since the 1980s. The concern for corporations is that inflation will erode the purchasing power of U.S. consumers if it outpaces wage increases. The Federal Reserve, the steward of the U.S. economy, has made it clear it needs to ratchet borrowing costs higher to quell the demand.
Brian Cheung—Yahoo Finance

Inflation Then And Now

	12 Month Inflation, 1980	12 Month Inflation, 2022
Gasoline	68.1%	48.0%
Household Energy	26.6%	15.3%
Transportation	23.1%	22.5%
Housing	17.0%	6.3%
Nondurable Goods	16.1%	13.1%
Overall Inflation	14.8%	8.5%
Medical Care	11.2%	2.5%
Durable Goods	9.9%	18.7%
Rent	8.8%	4.5%
Furniture	8.7%	15.8%
Prescription Drugs	8.3%	2.2%
College Tuition	8.3%	2.1%
Food At Home	5.9%	10.0%

Source: Bureau of Labor Statistics

"Government has three primary functions. It should provide for military defense of the nation. It should enforce contracts between individuals. It should protect citizens from crimes against themselves or their property. When government, in pursuit of good intentions, tries to rearrange the economy, legislate morality, or help special interests, the cost come in inefficiency, lack of motivation, and loss of freedom. Government should be a referee, not an active player." Milton Friedman

DJ IA	Nasdaq	S & P 500	Russell 2000	MSCI EAFE	Crude Oil	Euro	10 yr Treas.	Fed.Fund Rate	Prime Rate
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Jamie Dimon warned investors to prepare for an economic "hurricane" as the economy struggles against an unprecedented combination of challenges, including tightening monetary policy and Russia's invasion of Ukraine. "That hurricane is right out there down the road coming our way. We don't know if it's a minor one or a Superstorm." "I kind of want to shed non-operating deposits again, which we can do in size, to protect ourselves so we can serve clients in bad times. That's the environment we're dealing with," said the JPMorgan Chase & Co. Chief Executive Officer. He cited the strength of the consumer, rising wages and plentiful jobs as the "bright clouds" in the economy. Sally Bakewell and Steve Dickson—Bloomberg

Russia's invasion of Ukraine led western nations to impose the most draconian economic sanctions in the modern era. The Russian stock and bond markets have collapsed, along with Russia's currency, the ruble. Many investors fear that China, which has always wanted control of Taiwan, will use the mayhem of the moment to take it. China is more involved in global finance than Russia. Many fear that even if China doesn't invade, it may preemptively sell its roughly $1.1 trillion in US Government debt to avoid financial retaliation. The fear is that this will cause US interest rates to soar and the US economy to suffer. We think the fear is unwarranted. Inflation and Fed tightening are likely to push up rates in the next few years. This is what the markets should focus on, not a Chinese sell off of US Treasury debt. First, total US debt is roughly $30 trillion. If China sold all its debt, it is only 3.6% of all outstanding US debt. A shock on the day it happens but temporary. Second, consider what's happened to our budget deficit the last couple of years. Right before COVID, the Congressional Budget Office estimated that the baseline deficits for Fiscal Years 2020 and 2021, combined, would be a two year total of $2.0 trillion. Instead, due to COVID the two year deficit totaled $5.9 trillion. That's $3.9 trillion in extra deficits. The 10 year Treasury yield is essentially where it was right before COVID hit. Third, the Federal Reserve shrunk its balance sheet by almost $700 billion. Guess what? Interest rates fell. Fourth, even if rates were to rise, which looks likely no matter what China does, the US economy has rarely been as insensitive to interest rates as it is today. Due to underbuilding going back a decade, there are too few homes in the US. Even if mortgage rates go up, we need more new homes. Higher interest rates might mean a greater appetite for renting versus buying, but rental units have to be built, too. Meanwhile, auto sales are very low due to supply chain issues. Fifth, we anticipate another round of Quantitative Tightening starting mid year that will eventually be more aggressive than it was in 2018-19, maybe reducing the balance sheet by $100 billion per month. Sixth, it's important to remember that China didn't buy our debt as a favor to the US; they bought our debt out of self-interest. Using Treasury debt to back up their currency makes people more willing to use the renminbi. Citizens in China could offset this sale by buying more dollar denominated assets. Seventh, and most important of all, we need to recognize that interest rates are a function of economic fundamentals and expectations about the future, not who is buying and selling how much Treasury debt on any particular day. If China sells its Treasury debt, it's going to end up getting dollars in return. What will it do with those dollars? Swap them for a different currency, let's say Euros? Then whomever it swaps with will have the dollars. What will they do with those dollars? If China's sales of bonds drive up rates, whoever gets the dollars would likely turn around and buy US bonds. The result? No fewer dollars or bonds in the world. The US debt that China owns is more problematic for China than it is for the US. China invading Taiwan would be a horrible event. But the fear of China hurting our economy by selling our debt is overblown.
Brian S. Wesbury—Chief Economist; Robert Stein, CFA—Deputy Chief Economist

6/30/2022	"Current P/E" / "20 Year Avg. P/E"		
	Value	**Blend**	**Growth**
Large	12.9/13.7	15.9/15.5	21.3/18.5
Mid	12.4/14.4	14.3/16.3	19.9/20.3
Small	13.6/16.9	17.1/21.4	22.9/35.4
J.P. Morgan Asset Management			

The S&P 500 Index, above all else, is a price momentum index in the sense that stock price trends tend to persist and, because the S&P is capitalization weighted, the weightings of the S&P's best performers tend to become larger and larger as those trends persist. So much so that, from time to time, a very small number of stocks can account for an ultra large portion of total Index performance.
Nottinghill Investment Advisers, LTD.

Russia's war against Ukraine, the conflict has expanding ramifications, and the failure of Russia to succeed on its objectives inserts an unknown timeline of impact. Russia's attempt to physically reduce Ukraine to rubble is setting the stage to reduce its country to economic rubble, as those companies pulling out may be quite hesitant to return. China's actions against covid act like a pushmi-pullyu of hope and disappointment. The ongoing impact is hard on China internally, but also on the rest of the globe that relies on various items coming out of it for use. The Fed is telegraphing increases of undetermined size yet to come. Inflation is the focus, and they believe the underlying strength of the U.S. economy can handle the increases, even as they work to tamp down extra demand to reduce inflationary pressures. Markets believe the Fed always goes too far, and now it plans already to go too far, and it is only a matter of time before economic damage brings recession. Market drops, algorithmic trading, and uncertainties although value oriented stocks have outperformed year to date, the volatility has picked up the downward pressure on these companies as well.
M. Randolph Westlund, CFA—Quad City Bank & Trust

"History doesn't repeat itself, but it often rhymes." Mark Twain

Change In Yields Since July 2020 Low as of 6/30/2022

	July-20	Current
2 Year Yield	0.11	2.84
5 Year Yield	0.20	2.88
10 Year Yield	0.53	2.89
30 Year Yield	1.19	3.12

Source: PIMCO

Self-Inflicted Damage

Another example of politicians and bureaucrats attempting to compound one policy mistake with another. Energy policy can easily be summarized as pursuing strategies that prevent the production of fossil fuels in the United States. The failed policy has already placed the nation in a vulnerable position and is now driving the latest inflation problem. It was 14 years ago when oil was at similar levels to today and T. Boone Pickens warned that the "greatest wealth transfer in human history" was U.S. dependence on foreign oil. The U.S. shale oil boom then kicked off and today the U.S. is the largest oil producing (and consuming) country in the world with the capacity to produce more. Government regulation changes have shifted that ability overnight. One bad policy compounding another, whether it is Energy policy or Monetary policy, the United States is living Ronald Reagan's famous word's "The most terrifying words in the English Language are: 'I'm from the government, and I'm here to help.'"