DIVERSIFIED PORTFOLIOS, INC.

Investment Insights

A Resource for Investors, Attorneys and CPAs

April 2022

at a glance

Market Update

Global equity investors suffered losses in the first quarter – and bonds were unable to cushion portfolios.

Russian invasion of Ukraine

We take a deep dive into how previous military conflicts have impacted portfolios.

Required Minimum Distribution Update

New guidelines from the IRS bring changes to distribution rules for IRAs inherited from a non-spouse and the House proposes a bill to raise the age for RMDs to 74 starting in 2030.

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Market Update

April 2022

Asset Class	1st Quarter 2022 Return	12 Month Return
Large U.S. Stocks: S&P 500 Index	-4.7%	15.2%
Small U.S. Stocks: Russell 2000 Index	-7.6%	-5.8%
Developed International Stocks: MSCI EAFE Index	-6.1%	1.1%
Emerging Market Stocks: MSCI Emerging Markets Index	-7.6%	-13.7%
Bonds: Bloomberg Barclays U.S. Aggregate Index	-6.0%	-4.4%
Cash: FTSE 3-Month Treasury Bill Index	0.0%	0.1%

Source: Charles Schwab - Returns Calculator as of March 31, 2022

Global equity markets struggled throughout the quarter as the Russian invasion of Ukraine weighed on sentiment.

Global equity investors suffered losses in the 1st quarter as the war in Ukraine caused a sell off in risk assets. Inflation remains a major issue as well and the disruption to supply chains in Europe is not helping matters. Here in the United States, the Federal Reserve raised interest rates for the first time since late 2018 in their first attempts to fight inflation.

On the bright side, the U.S. economy continues to look strong, showing little weakness despite geopolitical pressures. GDP clocked in for 2021 at 7%, and recent economic releases have been better than anticipated, especially the jobs picture. In addition, earnings season went well for corporate America – although this was not reflected in share prices. Finally, the COVID picture appears to be improving, which will certainly help the economy heading into the 2nd quarter.

International exposure lagged in 2021 and is out of the gates poorly in 2022 with the uncertainty surrounding Russia. The invasion has roiled European energy markets, while impacting currencies and supply chains. Most Emerging Market equity indices came into the quarter with about 3% exposure to Russia—with markets basically valuing the Russian Stock Market at zero, Emerging Market broad indices struggled mightily throughout the quarter and are now down 14% over the last twelve months.

In Fixed Income, bond investors were looking for relief after a poor 2021. However, the standard U.S. Bond Index, the Bloomberg Barclays U.S. Aggregate, returned -6%, its worst quarter since 1980. Inflation and a “hawkish” posture from global central banks caused interest rates to rise rapidly across the globe—and as interest rates rise, bond prices fall. The silver lining is that expected returns for bond investors moving forward have increased as a result.

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Deeper Dive: Russia

April 2022

From an investment perspective alone, below we take a look at how markets have reacted to the Russian invasion.

The images and videos from Ukraine are tragic and upsetting to say the least. While geopolitical analysis is better suited for another space, we take a look below at how Russia, only responsible for less than 2% of global GDP, is upending many aspects of the global economy.

Energy

Developed Europe has been hit the hardest in the first quarter of 2022. The European Union sources 41% of its gas from Russia and 25% of its crude oil imports. Severe sanctions designed to cripple the Russian economy in response to the invasion will negatively impact the European economy in a different way than the United States. The European Union never had the recovery the U.S. had post Financial Crisis, and came into 2022 with weaker footing and momentum than the United States. Significantly higher energy costs will not help an already sluggish economy.

Supply Chains

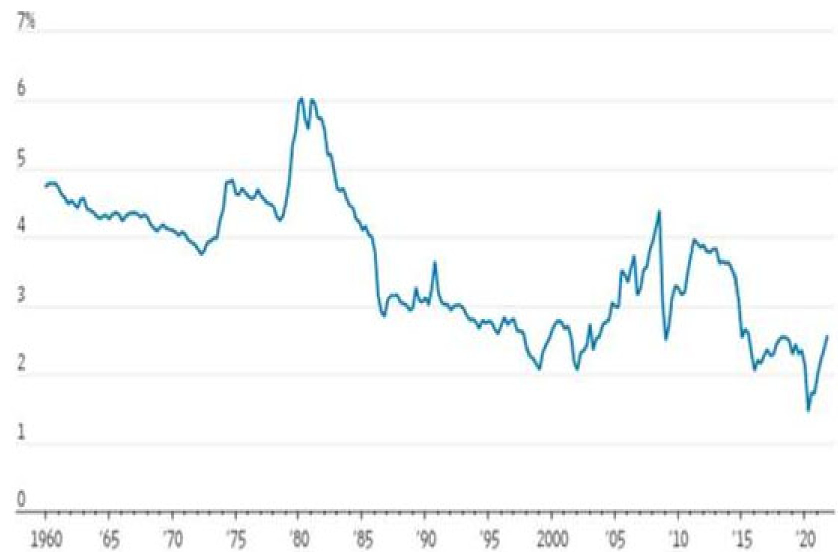
Cutting off trade with a large nation has ripple effects. Re-routed flights, limited supplies of certain products and increasing commodity prices only adds to the challenges of global supply chains still reeling from the impact of the COVID pandemic.

United States Impact

A reduction in global economic activity will of course negatively impact business in the United States. However, in this case it is more important to keep a close eye on the U.S. consumer, as we all are responsible for two-thirds of the U.S. economy through spending.

The average personal balance sheet came into 2022 in great shape, with low debt levels, home equity at all-time highs, and a financial cushion still in place from some of the COVID related benefits passed by Congress. Of course, with gas currently at an all-time national high of $4.32/gallon, consumers will feel the pinch. It remains to be seen if these increased cost causes demand destruction at the pump. We have not seen signs of this yet. The chart below offers a reason to stay calm for investors. Energy expenditures as a percentage of all consumer spending is near all-time lows. Although gas prices are at all-time highs, so are the national incomes of all U.S. Citizens.

U.S. consumer spending on gasoline and other energy products as a share of all consumer spending, quarterly



Note: Underlying data at a seasonally adjusted annual rate

Source: Commerce Department

Energy Sources: CNBC https://www.cnbc.com/2022/02/24/why-europe-depends-on-russia-for-natural-gas.html

CFR: https://www.cfr.org/in-brief/russias-energy-role-europe-whats-stake-ukraine-crisis

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Deeper Dive: Russia

April 2022

United States Impact (Continued)

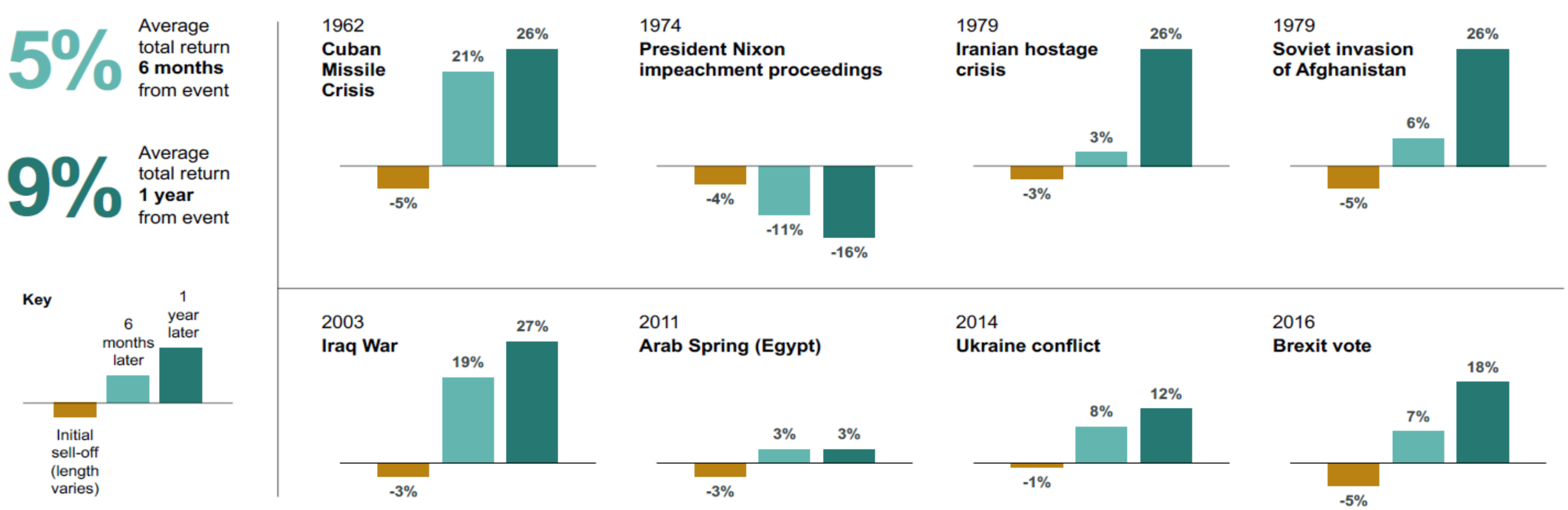
In other good news, earnings season has gone smoothly for U.S. corporations and analysts have actually revised up earnings projections for the S&P 500 over the quarter despite the turbulent headlines. It has been business as usual for corporate America for the most part, and the reduction of business in Russia should not materially alter the earnings picture here in the United States. Importantly, with the COVID pandemic hopefully shifting into a different phase, we are seeing pent up demand from U.S. consumers taking place. We are out and about spending and supporting the economy!

Looking Ahead

If history is a guide market sell-offs from geo-political instability in the past have been brief (see graphic from Vanguard below). Global economies are dynamic and ingenuity tends to find a way in commerce. For example, in this case perhaps investors could start to think about other positive long term scenarios from the recent instability. We could think about a world where alternative sources of energy become more profitable more quickly, a more unified Europe becomes a stronger economic power, and sourcing business from other corners of the globe lifts growth in other emerging markets, creating wealth from different sources. As always, sticking to a long term investment plan and looking past short term volatility should benefit investors.

Vanguard

Geopolitical sell-offs are typically short-lived



Source: Vanguard February 2022

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Financial Planning

April 2022

Required Minimum Distribution (RMD) Update

- In February the IRS came out with new regulations that reference the significant changes to RMD rules for inherited IRAs in the 2019 SECURE Act.
- For those who inherited an IRA from a non-spouse (and do not meet other exception criteria like being a minor child or chronically ill) in 2020 or later, the SECURE Act requires that you distribute the IRA in its entirety by the end of the tenth year after the original IRA owner's death.
- The new guidelines specify an additional requirement that if the original account owner was of RMD age prior to their death, then the inheritor also has to take required minimum distributions in years 1-9 based on their own life expectancy.
- The regulations are proposed to be effective starting in 2022 and taxpayers can use a "reasonable, good faith interpretation" of the SECURE Act for 2021 RMDs.

SECURE Act 2.0 Passes in the House

- In March the House approved a bill that included provisions to increase the limits on catch-up contributions to retirement accounts for older Americans, and to raise the age at which seniors must take RMDs from 72 to 73 starting next January, and up to age 75 starting in 2033.
- The bill is on its way to the Senate, and there is another bill in the Senate that is similar, but how a final bill might look is characteristically uncertain.

We're here to help

The team at Diversified Portfolios is wishing you a wonderful start to the spring season. We are ready to help answer any and all questions!

2022 Reminders

2022 Tax Year

April is always a good time to remind investors that there are tools available to reduce tax burdens into the future! Depending on ones personal situation, maxing out retirement plans, investing in municipal bonds, and taking advantage of certain tax credits are just a couple of ways to help ease tax liabilities.

401k, 403b contribution limits have increased

In 2022, participants in 401k, 403b, and similar plans can contribute a maximum of $20,500 of employee contributions, up $1,000 from last year's limit. Investors 50 and older can contribute an additional $6,500 for a total of $27,000.

RMD and SECURE Act 2.0 update – ED Slott's IRA Advisor April 2022 ; https://www.irs.gov/publications/p590b; https://www.barrons.com/articles/secure-act-2-0-retirement-rmd-requirements-51648594141

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