The Sizemore Income Letter

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Is Inflation Finally Peaking?

By Charles Lewis Sizemore, CFA

We just got what is potentially the best news of 2022: Inflation might – just MIGHT – have peaked.

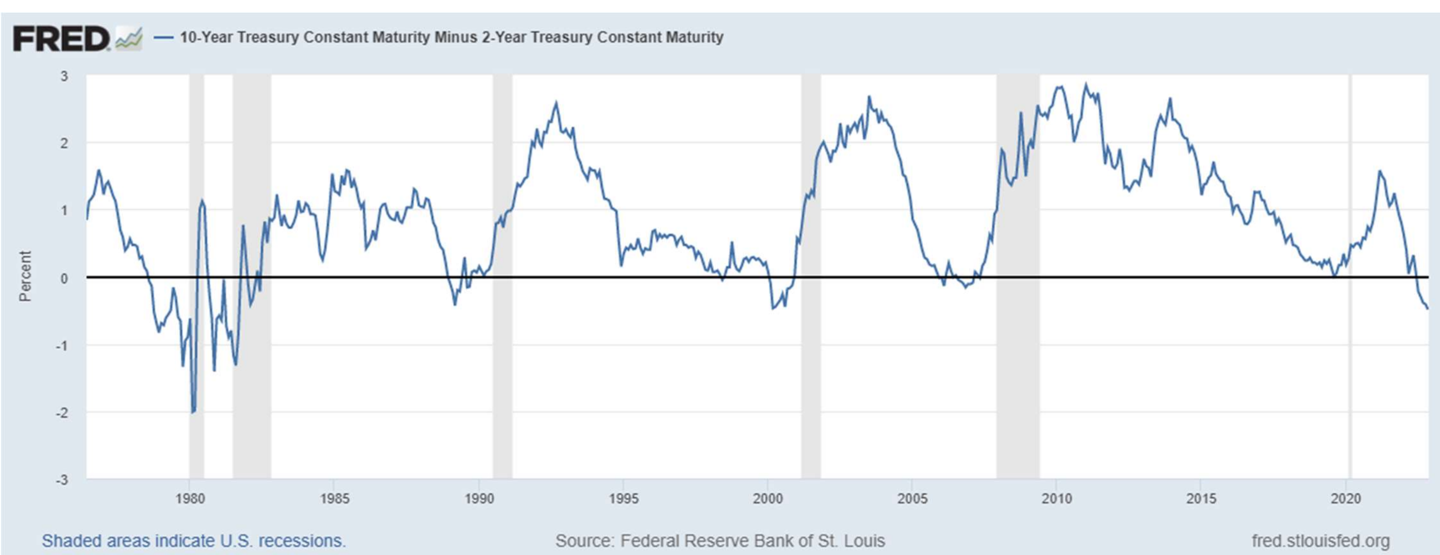
The CPI number came in at 7.7%. That's still high, of course, and probably not a big enough dip to cause the Federal Reserve to back off. After all, after a year of inflation pushing close to double digits, it's easy to forget that the Fed's inflation target is just 2%.

But this is still fantastic news because it implies, at least, that there might be a light at the end of the tunnel.

We'll see. As I write this, stocks are rallying hard in premarket trading. But I've been doing this long enough to know better than to get excited about a single data point. And it's important to remember that some of the most aggressive "up days" in the stock market happen during bear markets. Short covering and a general thinness of trading create conditions that make massive short-term spikes common.

My best guess is that we get a tradable rally out of this. But it wouldn't take much for it to fizzle out before the end of the month.

Remember, odds are still very high that we see a proper recession in the coming months. The yield curve has been inverted at its most extreme levels since the 1980s. Mortgage



rates are still hovering around 7%, which is gutting the housing market and creating the risk that a mortgage lender or hedge fund blows up.

And let's not forget that layoffs have started en masse in the tech sector… and that most major retailers are going into this Christmas shopping season with *very* muted expectations.

We'll take this good news… and possibly trade on it! But let's avoid getting ahead of ourselves. This remains a dangerous market, and we should remain cautious.

One Portfolio Move

Before I go any further, let me make one quick announcement. We unfortunately hit our stop in **National Storage Affiliates (NYSE: NSA).** I hate this, as I still have high hopes for this REIT. It's in a recession-proof industry and has a long runway for growth. But the interest rate environment we're in killed us here. Small-cap REITs are sensitive to interest rate moves, and yields across the yield curve have been surging.

That's ok. NSA is a fine REIT and one we might return to in the future. But for now…

Action to take: Sell shares of National Storage Affiliates (NYSE: NSA) at market.

Parting Comments on the Midterms

The midterm elections are *almost* over. We still have a high-profile runoff for the Georgia Senate seat still to happen, and there may be recounts or runoffs in a handful of House seats as well. We still don't know which party will control each house of congress, but as I write this it looks like the Senate will stay split 50/50, which would mean Democrat control, and the Republicans are likely to take the House by a razor-thin margin.

Let me be very clear: From a market perspective, very little of this matters. No matter what the outcome of this election, we were looking at some variety of gridlock. Even with Democrat control of both houses going into the election, there was effective gridlock because the Democrat majority was too thin to pass much in the way of major legislation.

If we had gotten a red wave, the Republicans would have had more control over the legislative agenda. But with President Biden in the White House… and veto pen in hand… there was zero chance of meaningful legislation being *passed*.

No matter the outcome, there was going to be gridlock. And that's what we're going to have for the next two years.

I do see one potential risk. The last time we had a Democrat president and a Republican-led House of Representatives, we had an endless stream of debt ceiling showdowns, one of which led to a near default and the stripping of our AAA bond rating as a country.

Unfortunately, I could absolutely see a repeat of that happening starting next year.

Make no mistake, our government needs to rein in its spending. The budget deficits of the past 40 years, under both parties, are a disgrace. I just wish our leaders could find a more adult way to settle this rather than their preferred theatrical displays that ultimately change nothing yet create a lot of unnecessary drama.

So…

Next year, we'll want to watch out for debt ceiling / default risk. But that is another problem for another day.

And finally…

I made these comments last month, and I want to reiterate them today:

> *I've been pounding the table saying that short-term Treasuries are a great place to park money right now. I will repeat that again today:* ***Short-term Treasuries are a great place to park money right now.***
>
> *I also think it's perfectly fine to be averaging in to stocks you intend to hold for the long-term. I don't recommend jumping in with both feet, but some modest buying here, particularly on days when the market is down, is prudent. I would also recommend setting your dividends to automatically reinvest if you don't need the income for immediate spending.*
>
> *Otherwise, remember that you don't have to be fully invested. Cash is a position too, and it's perfectly fine to be heavy in cash when the market isn't cooperating.*

With cash you're unsure you want to invest, 12-18-month Treasuries remain my preferred home. But I also think it's fine to be nibbling on stock positions here, particularly if they are positions you see as long-term holds.

That's all I have for now. Until next week, keep cashing those dividend checks!

Charles Lewis Sizemore, CFA

P.S.: Apart from writing this newsletter, I run a full-service wealth management firm along with my colleagues. At **Sizemore Capital Management**, we build income portfolios like those I write about in the *Sizemore Income Letter*. But we also do a lot more than that. We manage a suite of low-volatility strategies offering low correlation to the S&P 500. If you'd like for me to take a look at your portfolio and offer some recommendations, contact me at info@sizemorecapital.com.

Sizemore Income Letter Portfolio

Stock	Ticker	Entry Date	Buy Price	Recent Price	Stop Loss	Yield	Cumulative Dividends	Total Return	IRA Friendly?	Action
AGNC Investment Corporation	AGNC	11/3/2022	$8.16	$9.16	$6.37	15.72%	$ -	12.25%	Yes	Buy
National Storage Affiliates	**NSA**	**8/30/2022**	**$52.95**	**$39.06**	**$39.16**	**5.63%**	**$ 0.55**	**-25.19%**	**Yes**	**Sell**
Cheniere Energy Partners	CQP	8/4/2022	$46.49	$55.06	$33.01	6.34%	$ -	18.43%	No	Buy
Citigroup Inc	C	6/23/2022	$47.34	$46.56	$32.57	4.38%	$ 0.51	-0.57%	Yes	Buy
ONEOK, Inc.	OKE	4/28/222	$65.50	$62.20	$47.91	6.01%	$ 1.87	-2.18%	Yes	Buy
Energy Transfer Partners	ET	12/27/2021	$8.16	$12.24	$7.79	7.52%	$ 0.61	57.35%	No	Buy
EPR Properties	EPR	11/29/2021	$47.78	$39.58	$33.92	8.34%	$ 2.65	-11.63%	Yes	Buy
Chevron Corporation	CVX	9/30/2021	$103.33	$180.57	$130.77	3.15%	$ 5.60	80.17%	Yes	Buy
ClearBridge Energy Midstream Opportunity	EMO	5/26/2021	$21.94	$29.69	$20.49	6.87%	$ 2.16	45.17%	Yes	Buy
Magellan Midstream Partners	MMP	1/29/2021	$44.41	$51.72	$41.78	8.02%	$ 6.20	30.42%	No	Buy
Iron Mountain	IRM	8/25/2020	$30.22	$51.87	$42.57	4.76%	$ 5.57	90.06%	Yes	Hold
Starwood Property Trust	STWD	8/25/2020	$15.70	$21.04	$18.15	9.13%	$ 3.84	58.47%	Yes	Buy
Ecofin Sustainable and Social Impact Term Fund	TEAF	6/24/2020	$10.73	$13.11	$12.53	8.24%	$ 2.15	42.17%	Yes	Buy