

December | 2022

Alpha Wealth Monthly Brief

*“Feeling gratitude
and not expressing it
is like wrapping a
present and not
giving it.”*

*-William Arthur
Ward*

This year’s final newsletter will discuss whether the Fed’s aggressive rate hiking policy will be enough to bring inflation down to target levels and highlight a scientific breakthrough that was decades in the making.

Recapping December’s FOMC Meeting

This month, the Federal Reserve raised its benchmark rate an additional 50 basis points to a target rate of 4.25% to 4.5%, bringing the Fed Funds rate to its highest level since 2007. The half-point hike came just a day after the release of CPI data which showed the smallest month-over-month increase in inflation in over a year. Fortunately, this means the worst of inflation is likely behind us. Still, Chairman Powell remained resolute in the Fed’s commitment to stay the course until they’re positive that inflation is headed back to its 2% target level. Despite its persistence, some argue that raising rates alone won’t fully tame inflation. Another tool at the Fed’s disposal is its balance sheet, which roughly doubled during the coronavirus pandemic to about \$9 trillion. The central bank heightened the pace of quantitative tightening this summer, unloading as much as \$95 billion of Treasuries and mortgage-backed securities off its balance sheet each month. Still, some economists feel the Fed has a way to go and is currently not doing enough QT to bring inflation to its target level. Solomon Tadesse, head of quantitative equities strategies North America at Société Générale, believes the Fed will need to shrink its balance sheet by almost \$4 trillion to bring inflation down to its target.



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Additionally, some economists have argued that structural labor-market problems could undermine the effectiveness of rate hikes. A recent Brookings Institute study found that tightness in the labor market could explain three-quarters of the increase in monthly. Baby boomers are aging out of the workforce right as working-age population growth is slowing. An alarming number of prime-age men are staying out of the workforce. Meanwhile, the number of people not working due to disability has risen. All of this has amounted to increased pressure on employers to raise pay to keep workers while passing increased costs on to consumers. Higher rates may bring down demand but ultimately, the central bank is powerless against the worker supply shortage.

Nuclear Energy Breakthrough

This month, after decades of research, scientists at the US Department of Energy's Lawrence Livermore National Laboratory in California made a monumental technological breakthrough. The researchers produced a fusion reaction that generated a net energy gain. Though widespread commercial use of fusion power plants could be decades away, the technology offers the promise of abundant carbon-free power generation. Today's nuclear power plants generate energy through nuclear fission; a process scientists mastered decades ago. Fission involves splitting a larger atom into two or more smaller ones, whereas fusion involves fusing two atoms together. Both methods use the heat created from the reaction to generate energy. Modern nuclear power plants generate emission-free energy but also produce radioactive waste that must be stored properly. Additionally, though exceedingly rare, images of nuclear power plant meltdowns at Chernobyl and Fukushima have been seared in the public's mind. On the other hand, fusion does not have the same safety concerns. The technology has attracted billions from investors like Bill Gates, Jeff Bezos, and Peter Thiel, signaling growing optimism around the industry. Should the technology be scaled up, it would be battling for clean energy market share with wind and solar, who would have a considerable head start. Wind and solar have faced criticisms due to their inability to provide on-demand power generation, a problem that is trying to be solved through battery storage. Fusion plants address this issue as they can provide around-the-clock energy. This innovation marks a crucial step in the world's quest to create a more diverse and resilient energy portfolio.

Fast Facts

The median price of an existing US home has fallen 8% since its June peak. Still, if prices fell an additional 33%, the percentage lost during the 2008 housing crisis, we would only be brought back to February 2020 price levels.

Americans waste over 100 billion pounds of food each year.

According to a survey from the human resources firm UKG, over 40% of workers say they wouldn't wish their job on their worst enemy.

Since 1959 US Money Supply (M2) has increased every year. Over the last seven months, M2 has fallen by 1.5%, putting 2022 on track to be the first year in which money supply has decreased in over 60 years.

Contact Us

As always, feel free to reach out to us if you have any questions regarding your investments or financial plan or would like to schedule a meeting with our advisors.