Advisory Notes

SEPTEMBER 2022

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Third Quarter in Review

Let me first say that our thoughts and prayers go out to the victims of Hurricane Ian and to all those who have suffered during this devastating late September storm.

Inflation – the third quarter began with positive returns in July when inflation looked to peak as energy costs were rolling over. As we gathered more economic data during the following month, August showed that inflation had continued to rise and that the Fed would continue to increase rates into September and push its hawkish monetary policy in order to tame inflation. (See Market Table)

Economic growth is slowing and signs from across the Atlantic suggest more economic sluggishness may be upon us.

The CPI has eased from its peak gains, and, while that might bode well for investors and consumers, it is still increasing (albeit at a slower rate) which leads the Fed to continue to put pressure on the brakes of the economy. (See CPI chart) Energy has outpaced food 2 to 1 and all other items 3 to 1. As energy starts to decline, inflation fears and costs should lessen and the data points may show inflation coming down.

Given the market selloff from the Feds hawkish policy of raising rates plus shrinking its balance sheet, our focus is to own equity securities with quality balance sheets, positive cash flows, large business moats and strong management. For fixed income, we now have

See **Third Quarter** *on Page 2*

Market Table

Valicenti Advisory Services, Inc.
Comparative Index Period Returns
From 06-30-22 THROUGH 09-30-22

	DJIA	S&P 500	NASDAQ	Russell 2000 Index	BBG Barclays AGGR Bond Index	BBG Barclays Muni Bond Index	FTSE Corporate Bond Index	U.S. Treasury Bill Index (90 day)
06-30-22 to 07-31-22	6.82	9.22	12.39	10.44	2.44	2.87	3.07	-0.17
07-31-22 to 08-31-22	-3.72	-4.08	-4.53	-2.05	-2.83	-2.38	-2.69	-0.13
08-31-22 to 09-30-22	-8.76	-9.21	-10.44	-9.58	-4.32	-4.17	-5.27	-0.08
Cumulative Returns 06-30-22 to 09-30-22	-6.17	-4.88	-3.91	-2.19	-4.75	-3.77	-4.99	-0.38
YTD Returns 12-31-21 to 09-30-22	-19.72	-23.87	-32.00	-25.10	-14.61	-13.10	-18.44	-0.76

The highest compliment our clients can give is the referral of their friends and family. Thank you for your trust!

Director's Chair

Interviewer: What's your prediction for the fight?
Clubber Lang: My prediction?
Interviewer: Yes, your prediction.
Clubber Lang: [Clubber looks into the camera] Pain!
From: *Rocky III* (film, 1982)

In the history of film, there have been a few actors that have done an impressive job of playing different characters in the same movie, Peter Sellers and Tony Randall come to mind. Oddly, Federal Reserve (Fed) Chairman Jerome Powell is doing a decent job of playing a different character considering the past two Fed press conferences.

During the July post-FOMC (Federal Open Market Committee) press conference, the Chairman announced another 0.75% rate hike, bringing the Fed funds rate to 2.25%-2.5%. He acknowledged that it was "essential to bring inflation down to the 2% target," that "inflation was much too high," that "aggregate demand remained solid" and that "inflation creates significant hardships" to those who are poor. Then he made three statements that set off a massive month long rally. By saying that the Fed "will be looking for compelling evidence of cooling inflation," that "future rate hikes would be data dependent" and that the Fed would "likely slow the pace of hikes as rates go higher" created a rally that was not intended to happen. In effect, Chairman Powell was acting like non-focused fighter Rocky Balboa who was busy being distracted from the goal of winning the fight. Because of Powell's poor choice of words, the market believed that the Fed would stop rate hikes sooner than expected, igniting a stock market rally. This actually had the effect of inflaming inflation, the opposite of what the Fed desires.

On September 21, 2022, a new Jerome Powell showed up for the post-FOMC press conference. Yet another 0.75% rate hike was imposed, raising rates to a range of 3%-3.25%. His message was much clearer and hawkish that the committee would strongly move to reduce inflation below 2%, that "price stability is the role of the Federal Reserve," that the Fed "will be sufficiently restrictive" to lower inflation, that "risks to inflation are weighted to the upside" not down and that the Fed "will need the fund rate at restrictive levels and keep it there for some time." Also, the Fed released projections showing lower than expected GDP growth and higher than previously projected inflation probabilities. In effect, the message was clear, the Fed is willing to induce a recession, if necessary, to tame inflation or as Clubber Lang said, "Pain!"

Current projections are for the Fed funds rate to increase to 4.4% in 2022 and 4.6% in 2023, a steep increase from prior projections. In such rate hike environments, the financial and economic markets typically face stiff headwinds and we expect continued high volatility.

It should be noted that the character of Clubber Lang loses his fight in the end and that Powell may face the same ending

See **Director's Chair** *on Page 3*

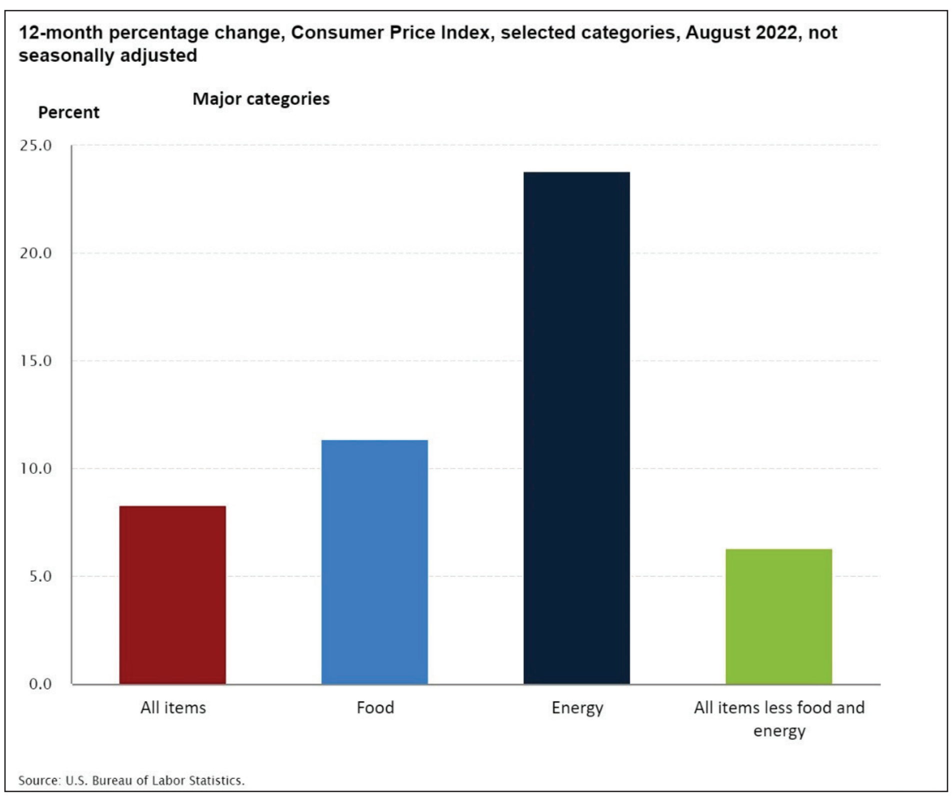
Third Quarter

(Continued from Page 1)

an opportunity to buy highest quality Treasuries and CD's on the short spectrum, as well as high quality corporate, medium duration assets to give the portfolios some resilience in a bear market, setting up for success in the future.

As always, we will tailor your portfolio strategies to match your individual needs and goals.

Joseph M. Valicenti
President/CEO



How the Inflation Reduction Act Will Lower Drug Costs

The recently passed Inflation Reduction Act includes significant improvements to the Medicare program that will be effective over the next few years. These improvements will lower prescription drug prices for millions of seniors by allowing the government to negotiate drug prices for the first time and capping out-of-pocket drug costs at $2,000 annually. Other popular changes will include free vaccinations, lower insulin costs and expanded subsidies for lower income seniors.

The following is a breakdown in the changes to expect in Medicare and when they will become effected.

2023

In January, all vaccines covered under Medicare Part D will be free to beneficiaries and the cost of insulin will be capped at $35 dollars per month. In addition, drug makers will be penalized in the form of rebates that they would be forced to pay to the government if they impose price increases that exceed general inflation.

2024

People with Part D coverage will no longer be responsible for any out-of-pocket drug costs once they enter catastrophic coverage. This is significant for seniors who use expensive medications for conditions like cancer or multiple sclerosis. Also starting in 2024 through 2029, Part D premiums will not be allowed to grow faster than 6% per year.

2025

One of the biggest cost reduction measures for Medicare beneficiaries will begin in 2025 when out-of-pocket spending on Part D prescription drugs will be capped at $2,000 per year. This will be a major savings for the more than 1.5 million beneficiaries who currently spend more than $2,000 out-of-pocket each year.

2026

Starting in 2026, Medicare will begin negotiating prices with drug companies for 10 of the most expensive drugs covered under Part D. In 2027 and 2028, 15 drugs would be eligible for negotiations and, in 2029 and subsequent years, 20 drugs would be chosen. In addition to all the Medicare improvements, the Inflation Reduction Act extends the Affordable Care Act premium subsidies for three years, which have helped millions of Americans gain coverage before they are eligible for Medicare.

Ralph H. Roberts, Jr.
Vice President of Client Services

Director's Chair

(Continued from Page 2)

considering the Fed started raising rates a year after inflation began to burn, while making excuses that the inflation was only "transitory." By being overly hawkish at the rapid pace the Fed has been on, it may land a knock down punch to our economy that may be difficult to get up from.

Louis F. Ruize
Director of Research/Portfolio Manager

Investment Strategy

We hope this finds you well. 2022 has been anything but normal. Many persistent uncertainties throughout the year have aided in creating very volatile markets both at home and abroad.

Inflation and supply chain disruptions continue to be at the forefront of markets. The ongoing war in Ukraine also weighs heavily on global markets, as a conclusion is unclear at this time. In addition, with the Federal Reserve maintaining a tightening strategy, concerns have been raised over corporate earnings and revenue growth in the months and quarters ahead. Additional areas of focus for the markets are higher U.S. Treasury yields, a strong U.S. dollar and elevated commodity prices, to name a few.

While markets seemingly are digesting a wall of worry, the Federal Reserve's action of sharply raising rates to slow inflation along with gradual improvements of supply chains are signs that inflation is starting to ease. Both labor markets and consumer spending are moderating but remain a positive for the U.S. economy.

We remain cautious on the Federal Reserve's ability to achieve a soft economic landing. That being said, our asset mix is as follows:

- Money markets and shorter term Treasuries 5-15%
- Fixed income 25-35%
- Equities in a range of 45-60%.

This asset mix will remain flexible during this period. For clients with specific directives, needs for income and risk levels, the asset mix will vary.

Jeffrey S. Naylor
Executive Vice President/CFO

Analyst Corner

In what is becoming more typical in the current market dynamic, the third quarter of 2022 saw a rapid changing of circumstances midway through the period. After a tempering of the rise in longer term interest rates combined with a strong equity rally throughout July and into the early part of August, the positive advance of stock and bond prices abruptly turned around. This was partly driven by the fact that core inflation measures came in hotter throughout the quarter, which helped to demonstrate that the rising price environment may have been broadening out, necessitating the need for a more aggressive Fed tightening policy.

The 10-Year Treasury yield rose by 83 basis points to a level around 3.8%. For balanced stock and bond portfolios, an unfortunate characteristic through this period has been the tendency for stock and bond markets to sell off together. The month of September proved to be one of the more challenging months of the year for balanced portfolios. The S&P 500 was down -9.21% and the FTSE Corporate Bond Index was down -5.27% in the final month of the quarter.

Most S&P sectors realized negative total returns in the third quarter, as the overall index was off -4.88%. The most interest rate sensitive areas of the Communication Services sector and the Real Estate sector responded negatively to the interest rate moves. These areas led to the downside respectively at -12.71% and -11.03%. Energy was a bright spot in Q3 and saw a gain of 2.16% in the quarter and it was only bested by the Consumer Discretionary sector, which gained 4.36% as the giant name in that group, Amazon.com, found some support after serving up mostly disappointment through the year.

Positive Market Influences	Negative Market Influences
Corporate Credit Spreads	Tightening Financial Conditions
Job Openings and Labor Turnover	Core Inflation
	Slowing Growth

Positive Market Influences

- **Corporate Credit Spreads** – The spread over U.S. Government bond yields, which corporate borrowers must pay, has recently only mildly moved higher which indicates, for now, that higher levels of stress in this key market are not yet being priced in. With liquidity tightening though, this will be an area of the market to keep an eye on.
- **Job Openings and Labor Turnover** – Job openings actually showed a sharp decline of over 1 million positions for the August period. While policymakers would almost certainly desire strong openings and more jobs generally, at this juncture, the softening in these types of measures may actually allow the Federal Reserve to slow their tightening earlier should their inflation goal attainment come into closer view as a result.

Negative Market Influences

- **Tightening Financial Conditions** – The Federal Reserve has increased short-term interest rates by 300 basis points or a full 3.0% in this year alone. Given the pace of inflation, this has been an unusually rapid ascent relative to the last few tightening cycles. Further, markets are also absorbing the fact that the Fed has begun the process of reducing its balance sheet, a process known as quantitative tightening.
- **Core Inflation** – Core measures of inflation strip out more volatile food and energy prices and the main measures tracked by economists surprised to the upside in August, after showing some signs of fading the month earlier. Core CPI came in at 0.60% month-over-month in August and the core Personal Consumption Expenditure Price Index measured 0.56% month-over-month inflation.
- **Slowing Growth** – The U.S. economy is on track to experience below trend growth this year and possibly next year, while concerns of a possible outright contraction are growing. Europe may be farther along in its slowdown phase due to the shock of the conflict in the Ukraine and China is also experiencing a slowing dynamic. The challenge is that central banks are still having to tighten policy into this slowdown, as inflation remains a concern to varying degrees globally.

Daniel P. Burchill
Security Analyst

One-Time Student Loan Debt Relief

Whether you are for or against it, President Biden announced in August that the U.S. Department of Education (ED) will administer a Student Debt Relief Plan, providing up to $20,000 in federal student loan debt relief to borrowers based on income. The following information regarding what you need to know is from the ED website – **https://studentaid.gov/debt-relief-announcement/one-time-cancellation**.

An online form will be available in October 2022. Here are some steps you can take now and in the future.

Step 1: Check if you are eligible

You are eligible for student loan debt relief if your annual federal income was below $125,000 (individual or married, filing separately) or $250,000 (married, filing jointly or head of household) in 2020 or 2021.

$20,000 in debt relief: If you received a Pell Grant in college and meet the income threshold, you will be eligible for up to $20,000 in debt relief.

$10,000 in debt relief: If you did not receive a Pell Grant in college and meet the income threshold, you will be eligible for up to $10,000 in debt relief.

Step 2: Prepare

Here is what you can do to get ready and to make sure you get updates:

- Log in to your account on StudentAid.gov and make sure your contact info is up to date. Updates come by both email and text message, so make sure to sign up to receive text alerts. If it has been a while since you have logged in, or you cannot remember if you have an account username and password (FSA ID), tips are offered to help you access your account.
- If you do not have a StudentAid.gov account (FSA ID), you should create an account to help you manage your loans.
- Make sure your loan servicer has your most current contact information so they can reach you. If you do not know who your servicer is, you can log in and see your servicer(s) in your account dashboard.
- To be notified when the process has officially opened, sign up at the Department of Education subscription page.

Step 3: Submit your application (when available)

The application will be available online in October 2022. Education Department will share updates on this (web) page and send you an email when the application is available. You will have until December 31, 2023, to submit your application.

The Education Department website also provides helpful information regarding referenced Federal Pell Grants, eligible student loans and answers to frequently asked questions.

Keep in mind that pending litigation may slow or even halt the Education Department Plan, so beware of scams from unreliable sources and be sure to follow updates from Federal Student Aid/U.S. Department of Education references only.

Kelly S. Diehr, FPQP®
Administrative Assistant

Hurricane Ian Victims in Florida Qualify for Tax Relief

IR-2022-168, September 29, 2022

WASHINGTON — Hurricane Ian victims throughout Florida now have until February 15, 2023, to file various federal individual and business tax returns and make tax payments, the Internal Revenue Service announced today.

The IRS is offering relief to any area designated by the Federal Emergency Management Agency (FEMA). This means that individuals and households that reside or have a business anywhere in the state of Florida qualify for tax relief. The current list of eligible localities is always available on the disaster relief page on IRS.gov.

The tax relief postpones various tax filing and payment deadlines that occurred starting on September 23, 2022. As a result, affected individuals and businesses will have until February 15, 2023, to file returns and pay any taxes that were originally due during this period.

This means individuals who had a valid extension to file their 2021 return due to run out on October 17, 2022, will now have until February 15, 2023, to file. The IRS noted, however, that because tax payments related to these 2021 returns were due on April 18, 2022, those payments are not eligible for this relief.

The February 15, 2023, deadline also applies to quarterly estimated income tax payments due on January 17, 2023, and the quarterly payroll and excise tax returns normally due on October 31, 2022, and January 31, 2023. Businesses with an original or extended due date also have the additional time including, among others, calendar-year corporations whose 2021 extensions run out on October 17, 2022. Similarly, tax-exempt organizations also have the additional time, including for 2021 calendar-year returns with extensions due to run out on November 15, 2022.

In addition, penalties on payroll and excise tax deposits due on or after September 23, 2022, and before October 10, 2022, will

See **Tax Relief** *on Page 6*

Tax Relief

(Continued from Page 5)

be abated as long as the deposits are made by October 10, 2022.

The Disaster Assistance and Emergency Relief for Individuals and Businesses page has details on other returns, payments and tax-related actions qualifying for the additional time.

The IRS automatically provides filing and penalty relief to any taxpayer with an IRS address of record located in the disaster area. Therefore, taxpayers do not need to contact the agency to get this relief. However, if an affected taxpayer receives a late filing or late payment penalty notice from the IRS that has an original or extended filing, payment or deposit due date falling within the postponement period, the taxpayer should call the number on the notice to have the penalty abated.

In addition, the IRS will work with any taxpayer who lives outside the disaster area but whose records necessary to meet a deadline occurring during the postponement period are located in the affected area. Taxpayers qualifying for relief who live outside the disaster area need to contact the IRS at 866-562-5227. This also includes workers assisting the relief activities who are affiliated with a recognized government or philanthropic organization.

Individuals and businesses in a federally declared disaster area who suffered uninsured or unreimbursed disaster-related losses can choose to claim them on either the return for the year the loss occurred (in this instance, the 2022 return normally filed next year), or the return for the prior year (2021). Be sure to write the FEMA declaration number – DR-4673-FL – on any return claiming a loss. See Publication 547 for details.

The tax relief is part of a coordinated federal response to the damage caused by Hurricane Ian and is based on local damage assessments by FEMA. For information on disaster recovery, visit DisasterAssistance.gov.

Steps You Can Take to Help Schwab and Your Advisor Protect Your Account

Use two-step verification. This security feature requires that you enter a unique security code whenever you access your accounts online, making it more difficult for someone to gain access to your information.

Use biometrics where available. If your smartphone or PC offers biometric security options like a fingerprint reader or voice or facial recognition, we recommend using those features.

Do not click on links in emails and texts. Online financial criminals try to make their emails or texts look legitimate. Be skeptical of all emails, texts, and any included links and attachments unless you are 100% certain that the email or text is legitimate.

Verbally verify disbursements. Ensure that you have enough information or documentation so that you know where you're sending your money. If you receive an email instructing you to transfer money, verify the instructions by calling the sender at a phone number you've used to contact them previously, then verbally verify the instructions. Do not call any new phone numbers provided in the email.

Exercise vigilance with your online presence. Limit what you share on social media and set privacy and security settings on websites and applications to safeguard your information.

Monitor account activity regularly. Make a habit of reviewing your financial account statements and online activity. Confirm that you recognize all the transactions listed—and report any that you don't.

Designate a trusted contact for your financial accounts. This is another trusted individual you can designate. In the event of an emergency, like suspected financial exploitation, financial institutions can reach out to this person to help resolve the issue.

Never give out information or money in response to email requests, text messages, or phone calls. These communications may appear to be from a legitimate source, but can be used to commit fraud or a scam.

Don't hesitate to ask for help right away. Reach out to others if you are concerned that you could be the victim of fraud or financial exploitation. The sooner you ask for assistance, the sooner you can work to recover any lost funds and prevent further losses.

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Group Benefits Plan
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- Life Insurance
- Disability Insurance
- Customized Benefit Insurance

The mission of Valicenti Insurance Services, Inc. is to provide personalized insurance products and services with unparalleled customer service to protect the assets of individuals, families and businesses that we serve.