



Market Monitor: July 2022

With the first six months of 2022 now in the books, investors must be wondering...Where is this headed? We have been hit from multiple fronts with inflation that is as high as we have seen in decades, ongoing supply chain issues, and a Federal Reserve that is delicately attempting to raise interest rates to slow the economy while hopefully skirting an extended recession. Market participants are busily discounting future economic revelations as they so often do, and that has caused plenty of consternation for those investors who are awaiting the calm on the other side of the storm. But that calm will come to those investors who are patient.

Here we provide some updates on the most recent quarter and add some perspective that you may find useful.

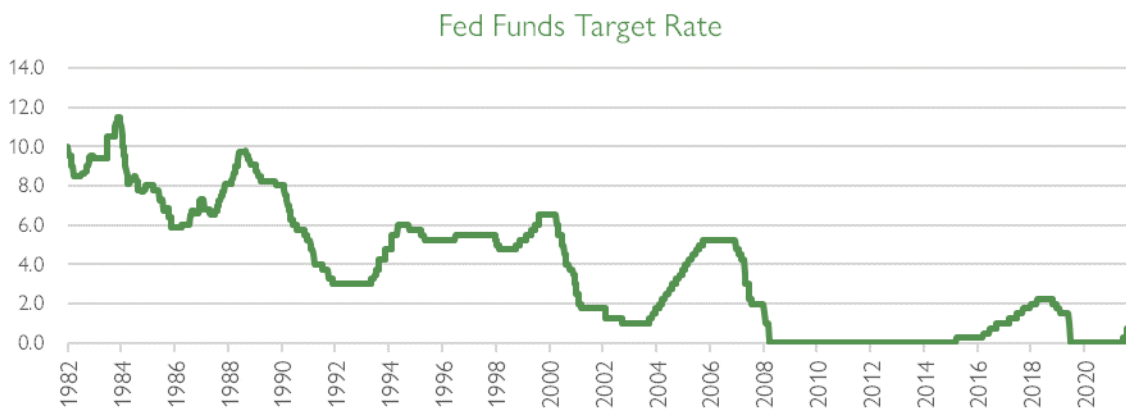
2nd Quarter Highlights

- The storm rolls on. Stocks continued their adjustment to the variety of negative macroeconomic factors that have characterized 2022 so far. U.S. stocks, as measured by the S&P 500 Index, finished the quarter down 20.0% for the year. While many pundits will note the fact that this is one of the “worst six-month periods on record”, it is helpful to recall that the S&P 500 increased 28.7% in 2021 alone!
- Non-U.S. stocks had a similar experience. The MSCI EAFE Index of developed markets was down 19.5% for the first six months while the Emerging Markets index fared a bit better, down 15.0%.
- Growth markets were the recipient of heavy selling led downward by the shares of many recently high-flying tech names. The Vanguard Growth ETF was down 30.4%, while the Value ETF only declined 9.4%.
- The Federal Reserve have been the stars of the show, and all eyes remain on them as they attempt to get inflation under control. They do this through a combination of raising short term interest rates and slowing purchases of Treasury bonds and mortgage-backed securities. As noted in the chart below, The Fed Funds rate now sits at 1.5%, having finally lifted off from 0% where it sat for the two years leading up to the March meeting.
- As of the latest reading in May, inflation, as measured by CPI, had increased 8.5% compared to the same month one year ago. However, reports in June seem to be indicating a slowing in the growth of commodity prices, mortgage rates, and a number of other key indicators. 10-year Treasury bond yields have advanced, but seem to remain capped at 3%, a historically low level.

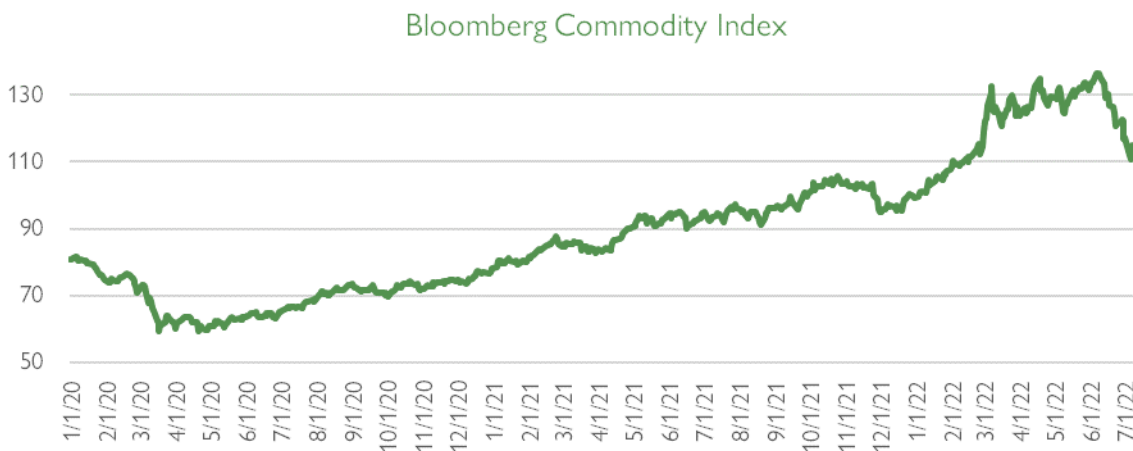
- Among the most frustrating elements of this adjustment for investors has been the lack of a hedge from bond portfolios which have declined along with stocks. Most bonds have no compensation for rising prices, as they offer fixed coupons, so they do not perform well in an inflationary environment.
- Our expectation is that even while cash rates of return are rising slowly, investors will eventually look to shift dollars to other asset classes that have a chance to outperform inflation in the next phase of the cycle.
- One key question for all investors to ask is...“For an intermediate investment time horizon, how often did I not achieve a positive return when investing after the market had already declined 20%?”

Three Big Things

Here we look at the trends in the Fed Funds Rate and commodity prices over time. We also investigate the impact of missing important days of a market recovery. Spoiler alert...you shouldn't miss any!



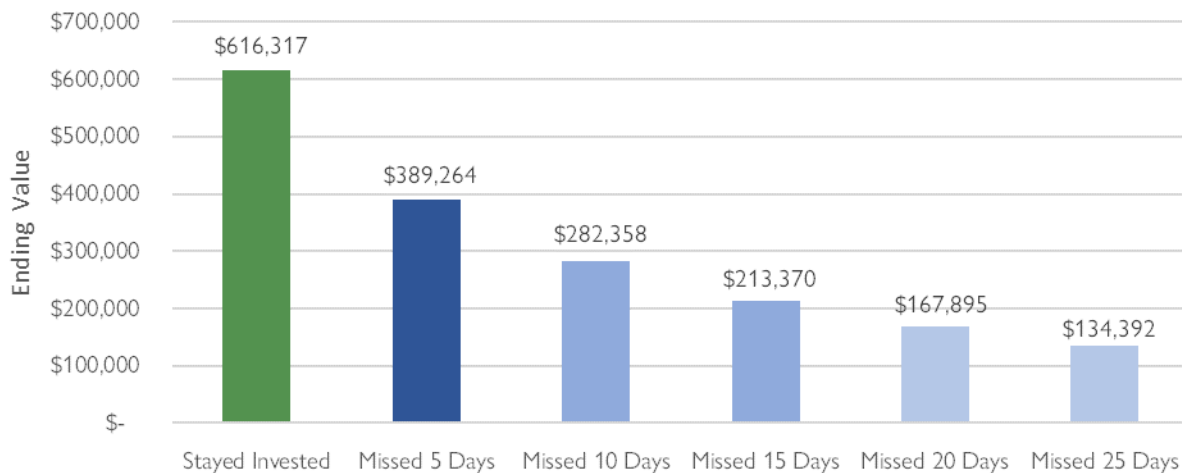
Source: Board of Governors of the Federal Reserve System



Source: Morningstar Direct

Stay Invested: Missing top-performing days can hurt your return

Hypothetical Investment of \$100,000 in the S&P 500 Index over the last 20 years (2002-2021)



Sources: BlackRock; Bloomberg. Stocks are represented by the S&P 500 Index, an unmanaged index that is generally considered representative of the U.S. stock market. Past performance is no guarantee of future results.

As we wait for this phase of the cycle to run its course, we would encourage all investors to continue to focus on the core principles of sound wealth management: address near term cash flow needs, revisit the financial plan, rebalance the portfolio, and tax loss harvest where appropriate. We look forward to the opportunity to review your wealth management plan in the coming months.

As always, please do not hesitate to reach out to us at any time.

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