Monthly Newsletter
July 2022

ARCH GLOBAL ADVISORS

Monthly Market Recap

June ended the worst start to the year for equity markets since 1970, with the S&P 500 retreating 20% and the NASDAQ falling even further, down 29.2%. Inflation continues to remain the number one worry for markets and weighed heavily on price action during the month, with many false rallies not fully developing. However, arguments for inflation subsiding have been growing in recent weeks and should eventually set up for a resistance breakthrough in what we still believe is a secular bull market. Are we near a bottom? It's impossible to know for sure. While further risks to the downside in the short-term are still present, we remain confident that markets will recover most, if not all losses over the next several quarters.

Upon the conclusion of the Federal Reserve's June 15th meeting, its members agreed to hike interest rates by 75 basis points, in an effort to combat persistently high inflation. The May CPI reading released in the beginning of June, came in at 8.6% and showed inflation reaccelerating from April's release. Oil and food prices have remained stubbornly high over an elongated time period, forcing the Fed to raise rates more aggressively than the 50 basis points they had signaled just days prior. We believe consumers are starting to feel the inflation effects, with modest pullbacks in spending beginning to appear and credit card debt increasing again. We expect to get further confirmation in the upcoming earnings cycle. However, we still feel the consumer is in fairly good shape with household balance sheets still healthy, employment strong and FICO scores being the highest on record. PCE numbers (the Fed's favorite indicator) were released this past Thursday and showed core inflation (.3% for the month) coming in better than expected.

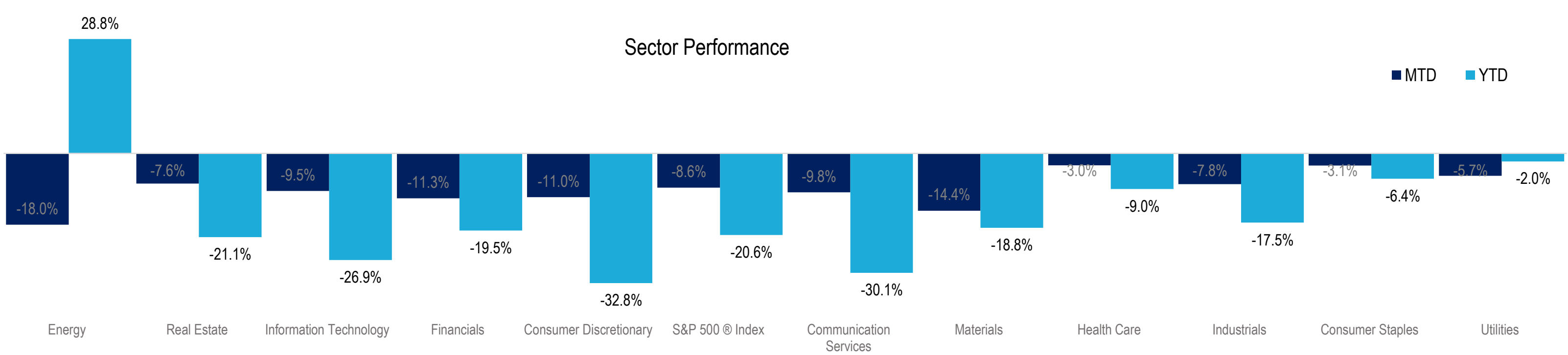
It would appear that equity markets have done some of the heavy lifting for the Fed already, with the yield on the 10-year Treasury backing up during the month, falling from nearly 3.5% to 2.94%. Uncertainty remains highly elevated as to whether the Fed will successfully be able to orchestrate a 'soft-landing', without forcing the economy into a mild recession. However, we do see some positive signs that inflation has or is close to peaking in the next couple of months.

- Commodity prices are trending lower
- Retail inventories are growing, which is putting downward pressure on prices
- Rising car production has dropped the cost on new and used vehicles
- Increases in home prices and rents have begun to moderate
- With China reopening and supply chains normalizing, transportation costs are coming down
- Airline prices falling

As a result, we feel that inflation rolling over in the upcoming months would dampen recession worries and would pause Fed rate hikes.

It's also entirely possible, that rate cuts in 2023 could happen if economic activity slows down dramatically. No recession is still our base case, with only a 30% probability of it occurring. Soft-landings are challenging, but we feel sentiment is entirely too bearish at the present. We still expect growth to come in at around 2.0% for the year (despite some slowing) which we consider a healthy, 'standard' rate.

It's important to remember that declines of 20% or more occur about once every 6 years and that they are inevitable and don't last forever. History has shown that market declines are a natural part of investing and investors should take assurance to know that markets have always recovered from declines. While past results don't guarantee future results, remembering that downturns are temporary might alleviate some fears. Returns in the first year after the five biggest market declines since 1929 have averaged 70.95%.



	Index Return %	
Equities	**MTD**	**YTD**
S&P 500	-8.3%	-20.0%
Russell 3000	-8.4%	-21.1%
Nasdaq	-8.9%	-29.2%
Dow Jones	-6.6%	-14.4%
Fixed Income		
US Aggregate	-1.6%	-10.3%
US Corporate High Yield	-6.7%	-14.2%

	Rate %
Economic Metrics	**May**
US Unemployment Rate	3.60%
US Inflation Rate	8.58%

	Levels	
Commodities	**May-22**	**Jun-22**
Oil (WTI)	114.38	111.44
Gold	1,838.70	1,825.50
DowJ. Commodity Index	1,219.60	1,095.51

	Rate %	
Interest Rates	**May-22**	**Jun-22**
10 Year Treasury Rate	2.85%	3.10%
30 Year Treasury Rate	3.07%	3.22%
30 Year Mortgage Rate	5.10%	5.70%
US Corp. AAA Effective Yield	3.54%	3.88%

All numbers reported are as of June 30, 2022.

Major Economic Events	Date
Employment Situation	1-Jul
Inflation Rate (Mar)	13-Jul
FOMC Meeting	26-27 July

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Sources	
S&P 500 Performance	https://ycharts.com/indices/%5ESPXTR/level
Russell 3000 Performance	https://ycharts.com/indices/%5ERUATR/level
Nasdaq Performance	https://ycharts.com/indices/%5ENA100TR/level
Dow Jones Performance	https://ycharts.com/indices/%5EDJITR
US Aggregate Performance	https://ycharts.com/indices/%5EBBUSATR
US Corporate High Yield Performance	https://ycharts.com/indices/%5EBBUSCOHYTR
US Unemployment Rate	https://ycharts.com/indicators/us_unemployment_rate
US Inflation Rate	https://ycharts.com/indicators/us_inflation_rate
10 Year Treasury Rate	https://ycharts.com/indicators/10_year_treasury_rate
30 Year Treasury Rate	https://ycharts.com/indicators/30_year_treasury_rate
30 Year Mortgage Rate	https://ycharts.com/indicators/30_year_mortgage_rate
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European Markets Performance	https://russellinvestments.com/middle-east/global-market-outlook#ColorBoxesRoot_5c2d1932-eb2f-4ad5-a377-5c496b847736
Sectors & Industries Performance	https://ycharts.com
Dow Jones Commodity Index	https://ycharts.com/indices/%5EDJC
Gold Price	https://ycharts.com/indicators/gold_price_in_us_dollar
Crude Oil Price	https://ycharts.com/indicators/wti_crude_oil_spot_price