Monthly Newsletter
August 2022

Monthly Market Recap

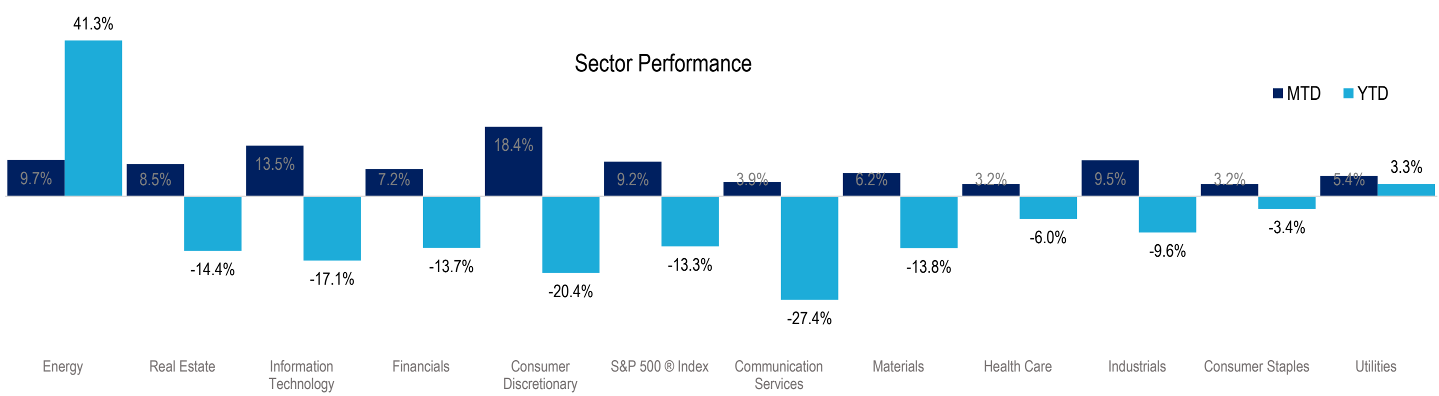
Equity markets rebounded sharply after the worst start to the year since 1970. The S&P rallied 9.22% to 4,130 and the NASDAQ soared 12.39% in July. Since 1948, the three worst performing first-halves were 1962, 1970, and 2022. All three also happen to be midterm election years, as politics are often relevant and influence market movements. 1962 saw Q3 and Q4 return more than 15%, while 1970 ended up 27% after being down 21% to start the year.

With that said, inflation continues to be the main driver of the market today, as well as the Federal Reserve's aggressive response with interest rate hikes. The Fed increased interest rates 75 basis points in their July meeting in response to the June CPI reading which came in at a blistering 9.1%, its highest reading since November 1981. While alarming at first glance, it's important to remember that CPI is a lagging indicator and we have already begun to see major price reversals, specifically in commodities over the last few weeks. Oil for example, is down almost $40 a barrel from its 52-week high (Energy has been the single largest component in the inflation data up to this point). We feel confident to say that inflation has now peaked and we will slowly begin to see future CPI readings tick down. This latest move adds credibility that the Fed is now serious about inflation and slowing demand. It seems as though it's working, as Q2 GDP came in at -0.9%. This comes on the back of a negative Q1 print which would put us in a technical recession (recessions are often casually defined as two successive negative quarters of GDP growth). However, it is often be more nuanced than that. While perhaps counterintuitive, the market rallied on both of these releases. Bad news is often viewed as good news.

There are 6 main factors that the National Bureau of Economic Research (the official authority in declaring a recession) looks at when determining a recession. Personal income, non-farm payrolls, household employment survey, personal consumption, sales and industrial production. Taking a deeper dive into the data, it's difficult to be a true believer that we are indeed in a recession. It would be unlike any other in history. Spending continues to remain robust, jobs are plentiful, and personal balance sheets are the best they've ever been (FICO scores are highest on record). We'll leave arguing over definitions to others and focus on how we expect the market to trade the rest of the year.

Last week we saw the Dow, S&P, NASDAQ, and Russell 2000 cross their 100-day moving average. To us, this is a bullish signal that momentum has finally shifted and that the June 17th low could indeed be a bottom. So far, 72% of companies who have reported quarterly earnings have beat expectations, calming some investors who feared growth would fade as inflation continued to tick up and hurt profit margins. As we have stated all year, the headline is worse than the reality and we still expect growth to come in at around 10% year over year.

Our viewpoint remains that as long as consumer spending holds up (which it clearly has up to this point) and business still invest, we should avoid any major economic damage. Being in an official "recession" doesn't usually require major portfolio drawdowns either. Up to this point, the market has done a lot of the work already in anticipation of tightening financial conditions and the panic bear selling has diminished. Going forward, we expect a pause/slowdown in interest rate hikes when the Fed meets again in September, which should continue to push equity prices higher as the Fed pivots from its hawkish stance towards a credit ease. The yield on the 10-year Treasury has begun to slide and many are beginning to look ahead to interest rate cuts in 2023. This all gives credibility that the bull secular narrative remains intact. While risks still remain present, we feel that 1962 and 1970 are a good blueprint for the path that market may follow to end the year.



	Index Return %	
Equities	**MTD**	**YTD**
S&P 500	9.2%	-12.58%
Russell 3000	9.4%	-13.70%
Nasdaq	12.4%	-20.47%
Dow Jones	6.8%	-8.60%
Fixed Income		
US Aggregate	2.4%	-8.2%
US Corporate High Yield	5.9%	-9.1%

	Rate %
Economic Metrics	**June**
US Unemployment Rate	3.60%
US Inflation Rate	9.06%

	Levels	
Commodities	**Jun-22**	**Jul-22**
Oil (WTI)	107.76	99.83
Gold	1,817.00	1,753.40
DowJ. Commodity Index	1,095.51	1,094.92

	Rate %	
Interest Rates	**Jun-22**	**Jul-22**
10 Year Treasury Rate	2.98%	2.68%
30 Year Treasury Rate	3.14%	3.02%
30 Year Mortgage Rate	5.70%	5.30%
US Corp. AAA Effective Yield	3.80%	3.47%

All numbers reported are as of July 31, 2022.

Major Economic Events	Date
Employment Situation	5-Aug
Inflation Rate (Jul)	10-Aug
FOMC Meeting	20-21 Sep

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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
US Corp. AAA Effective Yield	https://ycharts.com/indicators/us_coporate_aaa_effective_yield
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
S&P 500 Year 2 Election Cycle Market Paths	FactSet Financial Data and Analytics, Main Management LLC