

# Quarterly

## 2022 Second Quarter Investment Report

A volatile start to 2022 continued in the second quarter. U.S. stock returns struggled, with the worst first half of a year since 1970. In conjunction, bond yields rose and prices dropped across fixed income markets.

Looking at large cap U.S. stocks, the widely-quoted S&P 500 lost 16.10% in the second quarter, and is down 19.96% so far this year. The Russell 2000, an index of small cap stocks, was down notably in the second quarter and is down 23.43% through the first half of the year. Few areas of the market suffered worse than the Nasdaq Composite Index. The collection of technology stocks tumbled over the last three months to -29.51% year-to-date.

	Quarter	YTD	1 Year	3 Years
S&P 500 Index (TR)	-16.10	-19.96	-10.62	10.60
Russell 2000 (TR)	-17.20	-23.43	-25.20	4.21
NASDAQ Composite (PR)	-22.44	-29.51	-23.96	11.27

Source: Morningstar Direct; See disclosures for important benchmark information

Investors in international developed equities experienced similar returns. The broad-based EAFE index of companies in developed foreign economies lost 14.51% in the second quarter, to finish down 19.57% for the first half of the year. Emerging market stocks of less-developed countries, as represented by the MSCI EM index, also joined in the global decline, falling 14.45% in dollar terms in the second quarter, and 17.63% for the year's first half.

	Quarter	YTD	1 Year	3 Years
MSCI EAFE (NR)	-14.51	-19.57	-17.77	1.07
MSCI EM (NR)	-14.45	-17.63	-25.28	0.57

Source: Morningstar Direct; See disclosures for important benchmark information

Looking over the other investment categories, commodities have somewhat reversed course. The Bloomberg Commodity Index lost 5.66% in the second quarter, but is still hanging onto a strong gain of 18.44% for the year.

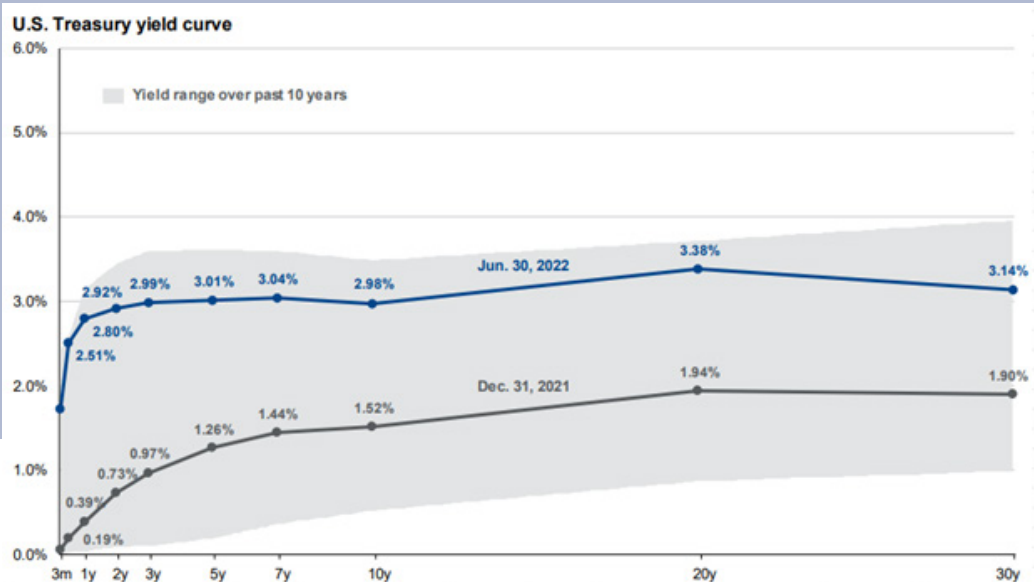
Much like the equity markets, bond markets have been volatile. Interest rates are still bouncing around but at levels much higher than the start of the year. Coupon rates on 10-year Treasury bonds have climbed to a 2.98%, up from 2.32% at the end of the first quarter. Three month, 6-month and 12-month bonds yielded 1.72%, 2.51% and 2.80% respectively.

Entering the second half of the year, the yield curve is flat relative to history. With rates up across the yield curve, the Barclays U.S. Aggregate Bond Index lost 4.69% in the second quarter, and is now down 10.35% year-to-date.

	Quarter	YTD	1 Year	3 Years
Bloomberg US Aggregate Bond (TR)	-4.69	-10.35	-10.29	-0.93

Source: Morningstar Direct; See disclosures for important benchmark information

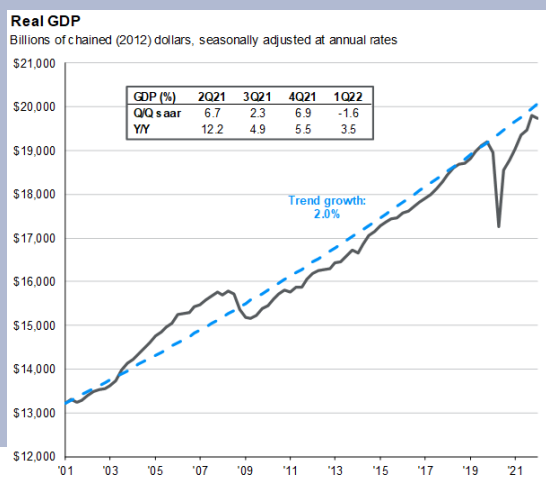
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Source:  
JP Morgan, Guide to the Markets Q3 2022

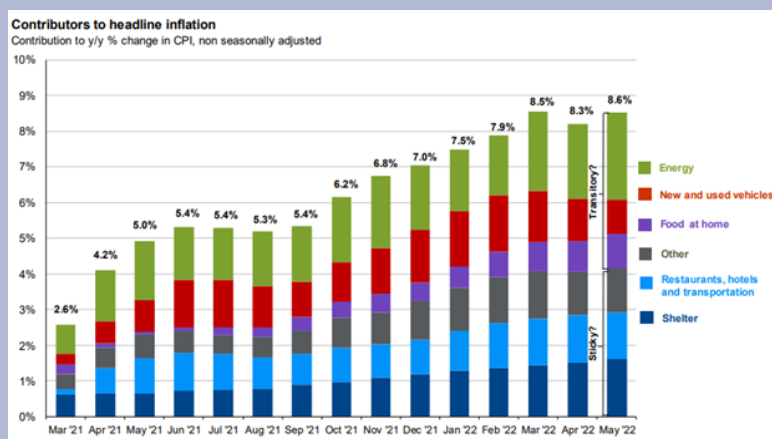
Inflation and growth dynamics have proved challenging for markets. The inflation rate remains high, with core personal consumption expenditures (this is the index that the Federal Reserve economists watch most closely) rising by 4.7% over last year. Estimates of the Consumer Price Index has been even higher. Oil prices are moderating a bit, but from high levels, which raises costs for consumers and corporations alike. The U.S. suffered an economic decline in the first three months of 2022. The numbers aren't in yet for the second quarter, but the risks of continued negative growth and a recession are not off the table.

Essentially, the Fed is trying to slow the economy by making money costlier and borrowing less appealing. That slows demand which hopefully allows supply to catch up. Supply has been lagging since the beginning of the pandemic. The Fed wants to moderate price acceleration to a more appropriate supply/demand balance. While this process plays out, investors should watch for lower energy costs (somewhat in gas prices), moderating home prices (nothing much yet) and changes in food prices (some evidence in commodity markets). The Fed Funds Rate increase is necessary and right, but blunt and may not directly or immediately impact the key factors of today's inflation – energy, transportation, and food.



Source: JP Morgan, Guide to the Markets Q3 2022

Fed Chair Jerome Powell has publicly stated that his biggest concern is bringing down inflation, and the Fed's policy tool is raising the Fed Funds Rate. A higher Fed Funds Rate drives up short-term interest rates which, in turn, reduces liquidity in the economy and selectively slows down the economy.



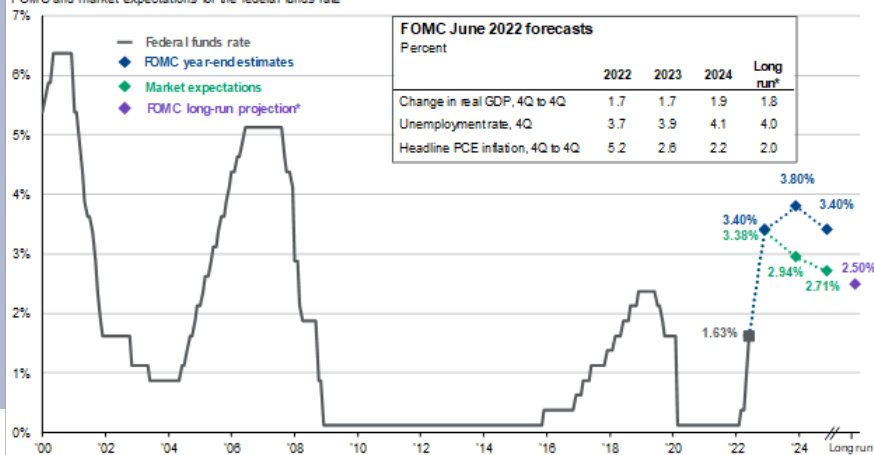
Source: JP Morgan, Guide to the Markets Q3 2022

Fed increases will also not directly unspool the supply chain, open cities in China or stop hostilities in Ukraine.

Going forward, the Fed has to stay data dependent. Market expectations and FOMC estimates are telling different stories about the path of future rate hikes. FOMC seems to think more hiking will be required to curb inflation while the market is seemingly pricing in a Fed that may be required to cut rates in the future.

### Federal funds rate expectations

FOMC and market expectations for the federal funds rate



Source:

JP Morgan, Guide to the Markets Q3 2022

While views are widespread, a commonly held opinion is that risk of a recession is definitely elevated, but not yet totally unavoidable. In the past, the market returns have anticipated economic slowdowns with more accuracy than the experts, and market recoveries have also tended to start before the slowdown had ended—as long-term oriented investors take advantage of attractive valuations moving to where the economy is going, not where it is.

History suggests that markets tend to overshoot the actual underlying conditions on the upside and also on the downside. One of the reasons for a downside overshoot is that human psychology seems to be inverted when it comes to our investments. As a corollary, the best market returns happen after losses. Patient investors are prudent to watch for signs of shifting momentum and continue to take advantage of opportunities within their risk tolerances.

## Financial Planning News:

Simply put, the last six months have been awful. Even when avoiding the daily reports (our recommendation), it's impossible not to know that every sector has been hit. It can cause anxiety, fear and worst case, panic. We get it, and we feel all of it right along with you. But there are things to do, to take some control and even take advantage of the downturn. A few, we have taken care of for you – tax loss harvesting when appropriate, re-allocating if necessary and investing into equities when markets show attractive valuations.

Outside of the portfolio, options around cash flow are key. The most important financial choice in a recession is to maintain your sources of income, so focus on work if you must, and spending if you can. Put aside the cash for any immediate needs and put off major expenses if possible for several months.

Savers are finally – finally – getting some yield on savings accounts. Marcus by Goldman Sachs, Amex Savings and CapitalOne are all offering rates above 1% now. Watch for lockups as you want this cash to be completely liquid. If possible, try to have 6-months' worth of spending held in savings.

## AnnualCreditReport.com

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And, go check that credit score (and tell your adult children to check too). With rates increasing, the cost of borrowing is dramatically more expensive. Credit reports may affect mortgage rates, credit card approvals, apartment requests, or even job applications, so your good credit can mean real savings. Just one example; if your mortgage is variable, now could be a good time for a second look at a fixed rate.

You are entitled to a free copy of your credit report from the three major reporting companies (Equifax, Experian and TransUnion). You can go to each website to request a copy, or start at [annualcreditreport.com](https://annualcreditreport.com).

## MONTIS COMPANY NEWS:



**We are thrilled to announce that Jessica Aiken Scola has joined Montis Financial early in the second quarter as a Financial Advisor.**

We are incredibly excited for Jessica to be helping our client families achieve their financial goals through creation and implementation of comprehensive financial plans. Besides being a great fit with our team, Jessica brings experience as an auditor and tax accountant.

To learn more about Jessica, please visit our website, or reach out to her directly at [jscola@montisfinancial.com](mailto:jscola@montisfinancial.com).

Welcome to the Montis family, Jessica!!

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### **Important Disclosure Information**

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*S&P 500, Russell 2000, Wilshire U.S. REIT, and Barclays U.S. Aggregate Bond indexes are reported using Total Return. Total Return assumes the reinvestment of dividends/interest. MSCI EAFE and MSCI EM benchmark performance is reported using Net Total Return. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.*

*Historical performance results for investment indices, benchmarks, and/or categories have been provided for general informational/comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges, the deduction of an investment management fee, nor the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results. It should not be assumed that your Montis account holdings correspond directly to any comparative indices or categories. Please Also Note: (1) performance results do not reflect the impact of taxes; (2) comparative benchmarks/indices may be more or less volatile than your Montis accounts; and, (3) a description of each comparative benchmark/index is available upon request.*

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