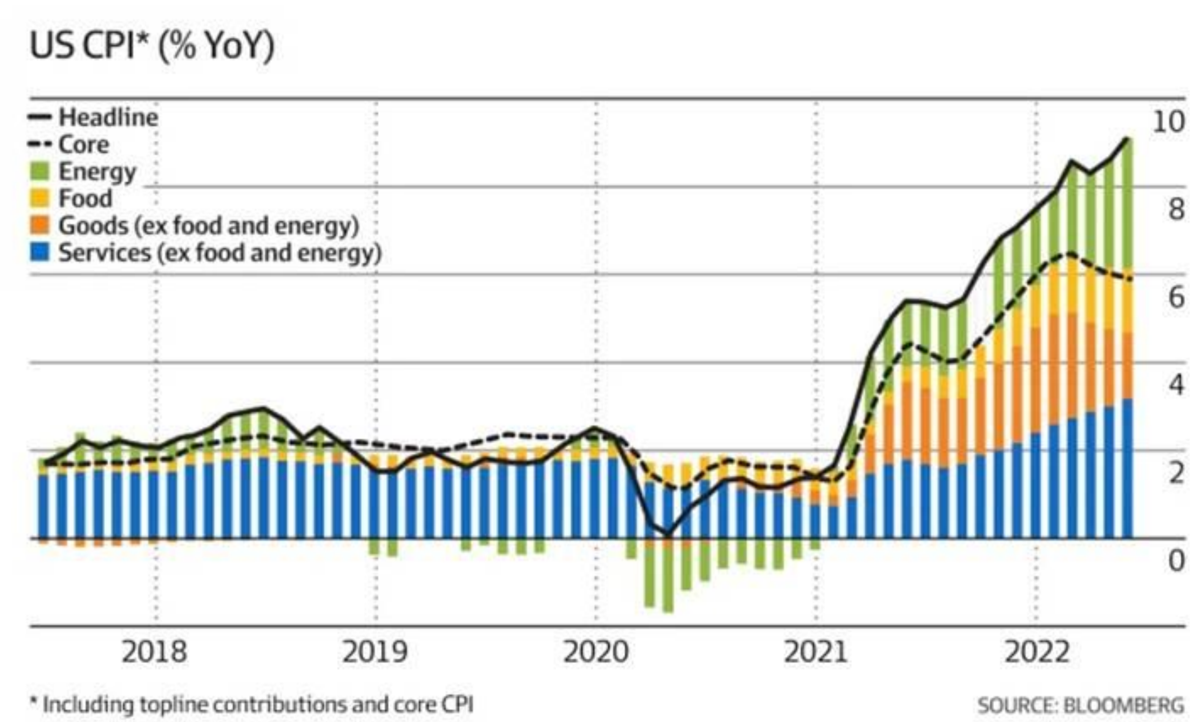
Monday, July 18, 2022

Good afternoon:

While most economists were not anticipating last week's June inflation figures to moderate, the actual report came in even hotter than expected. Headline CPI rose 1.3% translating to an annual inflation rate of 9.1%, the highest since November 1981. These results prompted renewed selling in equities as many now predict a continued aggressive posture from the Fed.



It is said that a bear market may be nearing an end when stocks can rally in the face of bad news. Perhaps we started to see this phenomenon on Friday when equity markets mounted a strong rebound, making up much of the week's earlier losses. This momentum seems to be carrying over to the beginning of this week with all major indices off to a solid start. With oil and natural gas each up over 4% today on the heels of the administration's failed attempt to get Saudi Arabia to increase production, we are again seeing stocks move higher on adverse news.

However, in addition to the recent jobs report, there are some other pieces of good news amongst the bevy of inflation worries and recession fears. The start to Q2 earnings season is now underway and positive results have already been reported by several key well-known companies. Of course, there will undoubtedly be disappointments as well over the next few weeks as results are announced. Even more than usual, companies' forward-looking outlook and earnings guidance that accompanies last quarter's results will be closely monitored and scrutinized for evidence of the dual global macroeconomic issues of hyperinflation and a slowing GDP on their businesses.

It is this all-important forthcoming specific data that will determine whether the bear market in stocks this year is justified or overdone. Equity markets, and the Fed itself for that matter, have a history of overshooting in BOTH directions. Periods of shifting phases in an economic cycle nearly always accompany increased uncertainty, leading to anxiety, which causes volatility. As we often point out, this heightened volatility should be expected in *both* directions and some of the strongest rallies occur in an otherwise bear market. Also, stocks will historically rally well ahead of what may actually be happening in the economy at that moment.

Since we know that recessions are inevitable, and often follow periods of rising rates, spiking oil prices, and an inverted yield curve, we believe the better question is: *How much* of this slowdown has already been priced-in to current equity levels? Remaining diversified and properly invested in high-quality growth companies, along with dividend-paying blue-chips should provide the best opportunity to achieve superior long-term returns as we navigate through these challenging times and emerge in the next bull market.

Have a great week!

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S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

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Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US
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