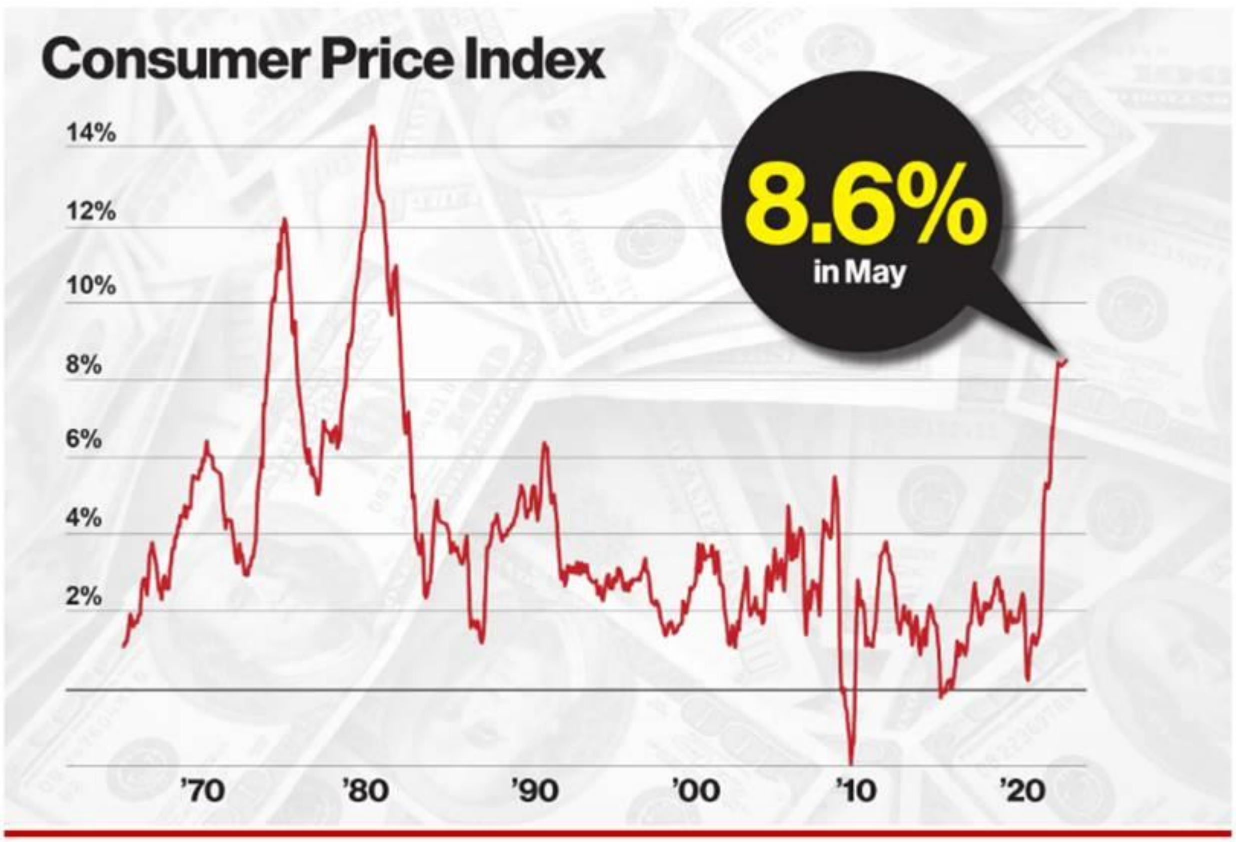
Monday, June 13, 2022

Good morning:

In last week's Monday Outlook, we suggested that two pieces of forthcoming economic data would set the tone for the market for the near term. Unfortunately, both were precisely the opposite of what many investors and traders hoped to see. May CPI came in at a hotter year-over-year rate of 8.6% when some had predicted April's modest decline indicated that inflation had peaked. This is the highest rate in the United States in 40 years.



Data released by the federal government on Friday indicates that the consumer price index rose by 8.6%.

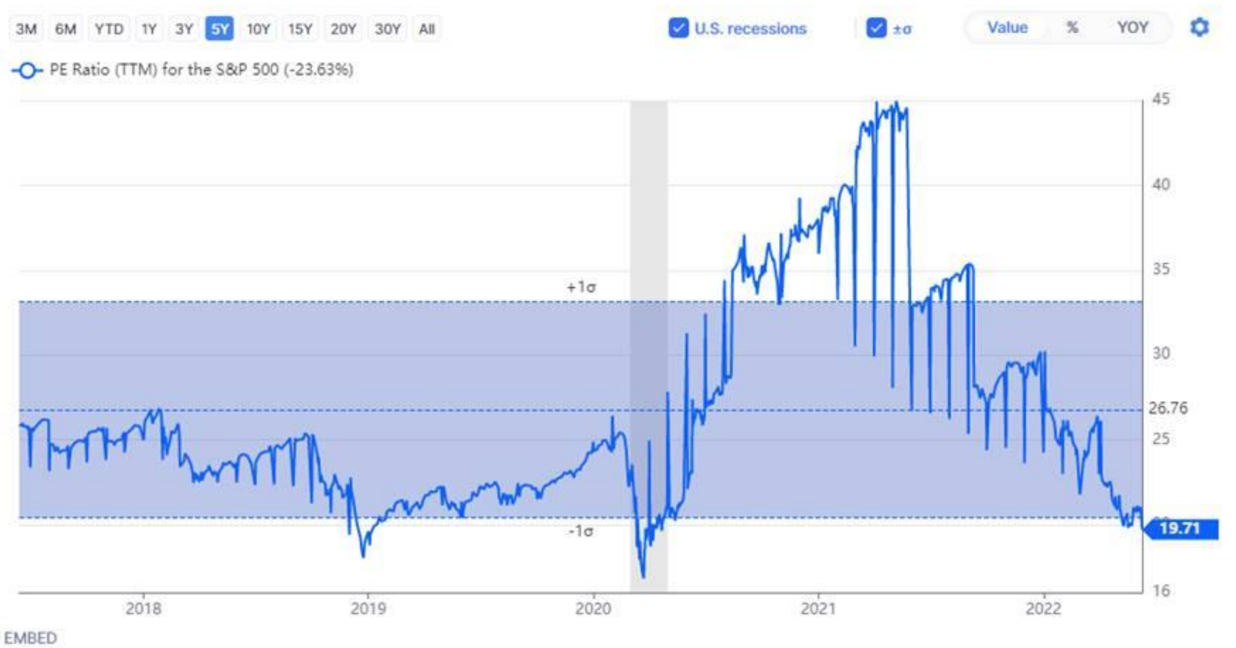
The other report released last week was the latest University of Michigan's Consumer Sentiment Index. Also expected to show improvement over last month's reading, the index instead fell sharply. In fact, it posted its worst level in its 80-year history. These disappointing results sent investors to the sidelines and triggered the worst week in the market since January. All major large-cap indices declined about 5% by the close of trading on Friday. This morning's continuation of another 4% pullback at the opening brings us back technically to bear market territory (>20% declines YTD).

Adding to the anxiety is Wednesday's upcoming Fed meeting where they are expected to continue on their course by raising rates at least another ½% in an effort to cool off the economy. With markets also expecting another ½% hike in July, and more later in the year, some economists are calling on the Fed to accelerate their plans and raise more *now* so inflation doesn't get any worse. Such a move was once feared, but now may be welcomed as it could signal the Fed's seriousness in their mission to bring inflation back to their target rate of 2%.

With the average American paying more than ever at the gas pump and the grocery store, it's clear why consumers aren't feeling very confident. Electric and gas utility supply prices have also risen sharply in the past several months with no signs of moderating. As so much of global inflation is brought about from energy prices, efforts to increase supply may be the only real remedy to reverse this trend, although this will clearly take time even *if* this was attempted. The concern of many is that after many months of failing to acknowledge the growing inflation issue was more than "transient," the Fed will compound their failure by now causing a recession.

The economy is clearly slowing, but the inevitability of a recession is not necessarily a fait accompli. In fact, S&P 500 earnings growth remains at 10% for 2022 and 8% for 2023. This year's decline in stock prices has therefore been a contraction in *multiples*. Meaning, the price/earnings (P/E) ratio of the market has fallen to lower historical valuation levels on all the uncertainty facing investors in these challenging times along with the rising cost of capital.

The trailing 12 month price-earnings ratio of the Standard & Poor's 500 index



It is important during difficult periods like this to take a step back and acknowledge your long-term goals and investment time horizon. Our market and economy go through cycles and occasional periods of extreme volatility. Trying to time the market by jumping in and out is rarely an effective strategy. Instead, remaining diversified among high-quality securities, while not a guarantee against loss, will help mitigate some risk until conditions improve.

Have a great week!

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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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