Tuesday, July 5, 2022

Good afternoon:

Markets were unable to establish any footing after the prior week's bounce and ended the first half of 2022 with single digit losses for the week. Fears of recession based on rising inflation has impacted nearly every asset class this year. When the dust settled, the S&P 500 Index posted its worst first-half to a year since 1970. As the chart below illustrates, the decline in equities this year has been broad-based.

Style Returns (%)

YTD

	Value	Blend	Growth
Large	-11.7	-19.1	-27.4
Medium	-15	-20.5	-30
Small	-16.1	-22.5	-28.9

Starting the year with the Fed still claiming inflation was "transitory," it quickly became clear that they were wrong. Unlike past Fed Chairs that opted to raise interest rates preemptively to prevent inflation from getting a foothold, Chairman Powell's inaction left them well behind the curve and forced to play catch-up this year. This came in the form of 1½% in combined rate hikes this year with more to come. Along with the economic consequences and potential recession it may trigger, equity markets have clearly been attempting to price these moves into current stock prices.

For nearly every investor, this has been one of the worst starts to a year they have ever experienced. Major stock indices are down between 20-30% with many well-known individual companies down 50-80% or more from their recent highs. Bonds have not proven to be a safe haven either this year. Rising interest rates causes bond values to fall which led to double-digit losses in fixed income assets YTD as well. About the only thing that has worked in 2022 so far has been commodities that can track the rising prices of energy and food prices.

In spite of both oil and Treasury yields moderating today, stocks are opening this holiday-shortened trading week on their same negative trajectory. The Dow and S&P 500 are off nearly 2% while the NASDAQ is holding up better off less than 1%. As we have discussed, these declines in equity values are happening against a backdrop of rising earnings and strong demand in many parts of the economy. The result is a market trading now at significantly lower valuations which should put a level of support underneath stocks at some point.

History may be on investor's side though. After the S&P 500 lost 21% in the first half of 1970, it reversed course and posted a 26.5% gain in the second half to finish slightly up on the year. While that would be great if we recovered everything in the next two quarters and ended the year in the black, it may be a tall order. Despite stocks historically posting losses in nearly 2 out of every 5 years (40% of the time), the asset class of equities has outperformed all others by a wide margin over the long run. However, it requires investors to tolerate this kind of volatility from time to time and not panic and sell. There WILL be better days and better markets ahead.

We believe markets will remain volatile while traders try to find clarity on the economy, inflation, and the Fed's response. After the widespread declines already in place, it is possible we are far closer to an ultimate market bottom at current levels. To share with our clients some additional perspective from our financial industry partners, we will be hosting another exclusive client call next week on Wednesday, July 13 at 1:00 CT. You will receive a separate email invitation shortly with all the details.

Have a great week!

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The Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

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.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

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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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