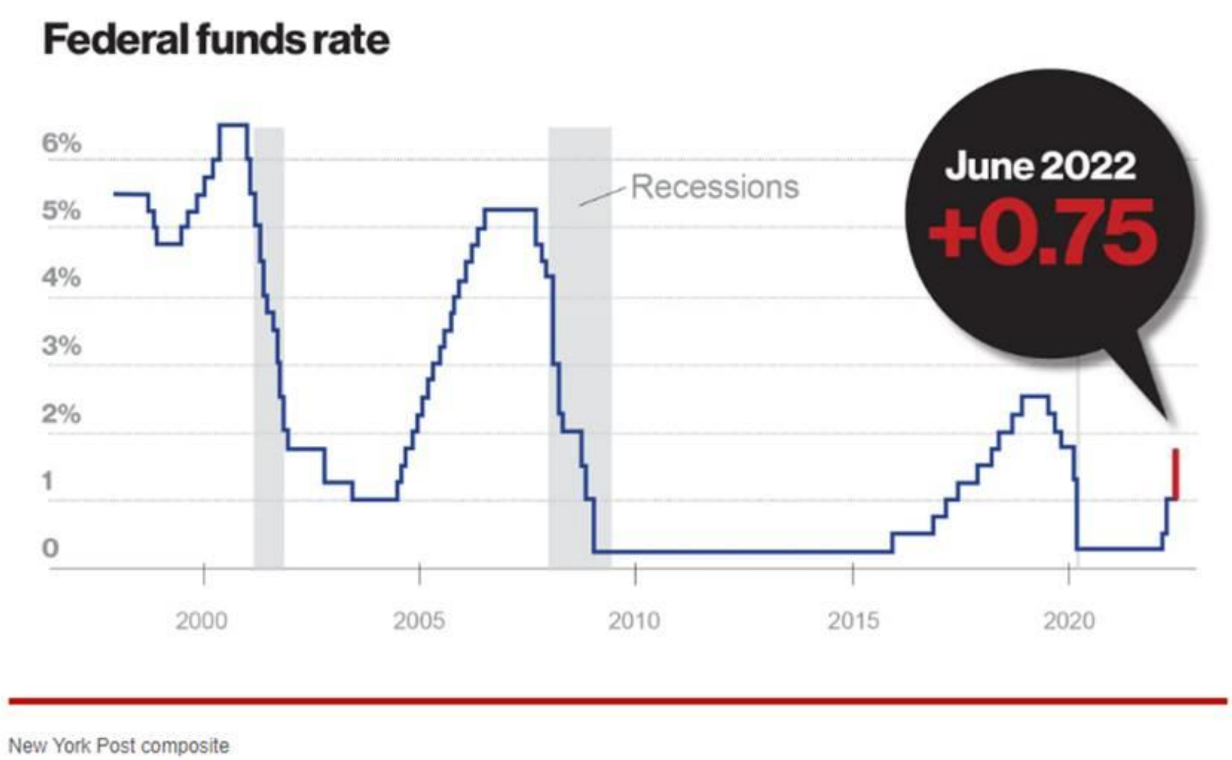
Tuesday, June 21, 2022

Good afternoon:

In a more aggressive effort to cool inflation, the Fed voted to raise rates by 0.75% at its June meeting last week. This was not entirely unexpected after May's 8.6% inflation rate showed that previous more modest rate hikes have yet to show any impact on soaring prices. We suggested that such a larger than expected move could be perceived in two ways-- both good and bad.



In fact, the initial response from the stock market was positive on the hopes that a bigger rate hike would curtail inflation faster. Unfortunately, this sentiment was short-lived and markets reversed course and sold off sharply as Chaiman Powell forecasted continued aggressive rate increases in the coming months. To confirm his commitment to lowering inflation, he said he is willing to tolerate lower economic growth and employment in an effort to do so. Accordingly, the Fed revised down their GDP expectations in both 2022 and 2023 while raising their unemployment targets for the next three years.

By week's end, all major equity averages posted heavy losses. The Dow and NASDAQ each lost about 4¾%, the S&P 500 lost 5¾%, while the small caps in the Russell 2000 lost nearly 7½%. Surprisingly, the top performing sector of the year, Energy, fared the worst last week losing over 17%. Across the board, stocks entered the holiday weekend highly oversold and back in bear market territory. Not surprisingly, bargain hunters have emerged as we start this holiday-shortened trading week pushing higher nearly 3% at today's opening.

Although the Fed, along with many other economic forecasters are not predicting a recession at this time, others believe it is not only inevitable, but the market may have already priced much of the downturn into current stock prices. We see recessions as a normal part of the recurring economic cycle, although not every recession looks the same. Some are quite severe and are triggered by exogenous shocks like 9/11 or the 2000 pandemic shutdown, or accompany systemic problems like the 2008-09 housing and banking crises. However, most recessions throughout history are more "garden variety" contractions from which recoveries and new growth cycles quickly emerge.

Out a sense of pessimism and uncertainty, if stocks are attempting to price in a forthcoming severe recession, anything *less* in the way of a "soft landing" could trigger a sharp reversal to the upside in equity prices. As this will all take some time to play out in the coming months, patience, perspective, and perhaps a strong stomach will be necessary to get through these challenging and highly volatile times.

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.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

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