Louisville Capital Advisors
Current Thinking – Third Quarter 2022

Positives:

1) Although it has trended higher over the last several months, the initial jobless claims have remained close to all-time lows and are not yet signaling any problems for the US labor market. There are currently almost two jobs available for every worker looking for work.
2) After a swift decline in equity prices, the market has attempted to bounce from oversold levels.
3) Equity prices and valuations have been reduced, especially for smaller companies, as the S&P 600 small cap index is trading at multi-year low price-to-earnings ratios making potential entry points attractive.
4) Inventories remain below normal levels in big-ticket items such as autos and appliances which should keep manufacturing output strong.
5) Bond yields have increased, allowing fixed income investors to generate much higher cash flows.

Negatives:

1) As rates have moved higher, a housing slowdown is on its way and will contribute to putting downward pressure on house price inflation during the next several quarters.
2) Unless the narrative changes regarding a Russian de-escalation or China ending lockdowns, it will be difficult for equities to sustainably move higher without better inflation data.
3) The rapid rise in interest rates continues to lower the value at which equity investors are willing to pay for future profits.
4) Oil and gas price volatility still has a significant impact on many industries, and the rise of energy prices continues to put upward price pressure on a variety of goods and services across multiple industries.
5) Multiple equity indices are down more than 20% from their peaks, a metric often used to signal a bear market.

Considerations:

1) As rates have increased, bond investors are again being compensated for extending maturity dates in laddered portfolios.
2) If you are implementing a dollar cost averaging strategy for equity purchases, you should continue or increase contributions during the market pullback.
3) We caution against selling equities only to reduce potential further declines. Once sold, reentry points are extremely hard to identify, and you risk missing rally attempts. This strategy requires you to be right twice in timing the market.
4) For the first time in many years home buyers should evaluate five, seven and ten-year mortgage options, especially if you do not plan to live in your new home for ten years or more.
5) Many investors will make the decision to ignore their statements and not look at their finances during tough times; we strongly disagree with this approach.