Week in Review

Equity Markets:

After spending the past three weeks in the red, the S&P 500 rallied and ended the week up over 6%. The strong rally recovered the steep losses from the week prior. The S&P 500 is now down just under 19% from the high of 4,818 in early January.

With only four trading days left in the first half of 2022, the S&P 500 is having its worst first six-month period since 1970, according to Bloomberg. In 1970, through June, the stock market was down ~21%.

Fixed Income Markets:

After starting the week at 3.3%, the 10-year yield fell to 3.13% by the end of the week. Bond prices rallied and drove yields down as investors' expectations of the Fed's ability to get a handle on inflation have slightly increased.

Federal Reserve Chairman Jerome Powell testified in front of Congress on Wednesday and Thursday last week. He reiterated the Fed's commitment to combating inflation and confirmed the aggressive stance on the possibility of another 75-basis point hike at their next meeting.

Economic:

Economic numbers continue to show a softening in the economy. The final June reading for the University of Michigan Consumer Sentiment Index was revised to 50, down from the preliminary 50.2 reading earlier in the month. The downward revision was attributed to the current conditions part of the survey. Manufacturing activity slowed according to S&P Global, coming in at 52.6. A reading above 50 is considered in expansion territory but was well below the expected reading of 56.

With fears growing of an economic slowdown, the Federal Reserve's annual stress test of major banks was completed. It is important to note that all 33 institutions passed the stress test. These stress tests were enacted after the 2008 Financial Crisis in hopes to stave off another financial crisis. The Fed concluded that the country's largest financial institutions have the financial stability to withstand a severe economic downturn. The Fed's stress test assumed an increase in the unemployment rate to 10%, as well as a severe contraction in both commercial real estate and the stock market.

Looking Ahead

Equity Markets:

The historical losing streak for the S&P 500 has been caused by valuation compression and increasing fear of downward earnings revisions. Earnings growth has slowed but still remains positive. The forward price-to-earnings on the S&P, according to FactSet, stands at 15.8. This is well below the 5-year average of 18.6 and below the 10-year average of 16.9.

The stock market is a discounting mechanism and tries to price in future earnings growth expectations. Q2 earnings growth has been revised down to 4.3% from 5.9%. Getting through any necessary downward revisions could set the stage for a surprise rally into the back half of the year, particularly with any progress on the inflation, and therefore monetary policy front.

Current valuations across multiple markets have set up more attractive expected returns for long-term investors. We believe volatility will likely continue as the Fed's tightening policy continues and the economic cycle moves into the later stages. A thoughtfully developed investment plan is imperative for years like the one we are currently experiencing. Ensuring that you are able to stay committed to your long-term strategy will likely allow you to take advantage of opportunities that end up paying off in the long run.

Fixed Income Markets:

Similar to the equity markets, we see the current fixed income market as attractive for the long-term investor. We still believe that the 10-year treasury will moderate in its current range near 3.5% before yields will ultimately retreat. This is not to say the 10-year won't spend some time above 3.5%, but we believe long-term secular/structural trends are likely to keep rates compressed.

Economic:

An important inflation reading will likely garner the most attention this week. The Personal Consumption and Expenditures Index will be released on Thursday. The ISM Manufacturing Index and consumer confidence will also be reported. Initial jobless claims will be released on Thursday. This is a report that we believe will attract attention as fears of a more meaningful economic slowdown have increased.

See following page for important disclosures

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