Week in Review

Equity Markets:

The S&P ended the week down 2.2%. The markets did end on a positive note for the week, finishing the first day of the new quarter up ~1%. We are through the first half of 2022, and as widely expressed, we experienced the worst first half of the year for the stock market since 1970. Year to date, the S&P 500 is down nearly 20%. Energy has been the top performer so far this year, and it is the only sector to be positive. Defensive sectors have generally held up amidst the market volatility. Utilities, Consumer Staples, and Health Care are all down less than 10%, according to FactSet.

The stock market has struggled to recover amidst economic slowdown fears. Investors are concerned that current inflation and resulting tighter monetary policy will significantly dampen economic growth.

Fixed Income Markets:

After nearly hitting 3.5% in early June, the 10-year yield ended the week at 2.89%. The yield curve has shifted back to a flattening trend yet again. The 2/10's spread ended the week at .05%. This spread is closely watched as a recession indicator.

Economic:

The June ISM Manufacturing Index slowed more than expected, but still reported a number that is considered in expansion territory. The ISM index declined to 53, which is much less than the 54.5 expected reading.

Looking Ahead

Equity Markets:

We are in the early stages of the Q2 earnings season and in the coming weeks, will be in full swing. The stock market appears to be pricing in, at minimum, a slowdown in growth, and earnings reports will be under the watchful eyes of market participants. Currently, earnings growth is expected to be 4.1% for Q2, according to FactSet. Analysts have continued to revise their earnings expectations down since March 31. At the end of the first quarter, analysts expected growth to be 5.9%. The concern is that estimates have much further to slow, as analysts are late.

The markets have a pessimistic feel to them, and in current times we believe investors must stay focused on the long term. When expectations are overly negative, better-than-expected reports can help shift sentiment. We do not believe in trying to call a top or bottom of the market. But as sentiment becomes more and more negative, the market needs a catalyst to make a swift change of direction.

Staying diversified and committed to your long-term investment plan is the best way to withstand market volatility, in our opinion. We believe dynamic rebalancing through a market cycle is also a great tool for investors to help smooth out volatility and maintain target risk, especially in periods like this where sector performance can vary widely.

Fixed Income Markets:

The minutes from the most recent FOMC, which delivered the largest rate hike since 1994, will be released on Wednesday. Investors will likely scour the minutes trying to find more insight into the Fed's plan to get a handle on inflation.

Economic:

This week will be a busy one with economic reports. We will see May Factory orders and the June reads for ISM and S&P Global's Services PMI. The JOLTS report (Job Opening and Labor Turnover) for May will be released on Wednesday. Outside of the FOMC minutes release, the most closely watched report will likely be Friday's nonfarm payroll report. As fears of an economic slowdown grow, investors will be looking for the labor market to give insight into the preparations, if any, companies may be making.

See following page for important disclosures

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