Week in Review

Equity Markets:

The S&P closed within 30 points of the early June lows this week. This was heavily influenced by the FOMC's decision to continue its rate hike path and the commentary that followed. We are nearly 10 months into the year and the market has seen a slow bleed. A slow drawdown was followed by a rapid bounce back, ultimately leading to another low. Is the current low of 3,636, established in June, the ultimate low? Nobody honestly knows. If we are looking at a mild slowdown it very well could be, but if inflation persists and the Fed is forced to raise rates further than anticipated we could see S&P levels below 3,600.

Fixed Income Markets:

The FOMC increased rates by 0.75% for the third consecutive meeting. The rhetoric, along with the policy, pushed rates to the highest seen in ~15 years. The 10-year treasury ended the week above 3.7%.

The 2-year ended the week at its highest rate since 2007, above 4.25%. The lost days for fixed income investors are gone and bonds now have an attractive return profile.

Economic:

In a light week for economic data, the PMI for Manufacturing and Services from S&P Global surprised on the upside last week. Both are solidly in expansion territory. This was obviously overshadowed by monetary policy.

The markets are digesting a tightening Fed and mixed economic data. The labor market strength remains at historic levels, but there are soft spots as well. The current market is in a push/pull scenario. There are catalysts for both outcomes. The strength in some areas could lead to a strong rally but a breakdown could lead to a deeper low.

Looking Ahead

Equity Markets:

The current market is the ultimate test of an investor's fortitude. Swift moves have been unpredictable, but the theme has remained consistent. Nearly nothing has worked. Bonds have declined with stocks and there appears to be nowhere else to go except for cash. But, with high single-digit inflation, even cash appears to be a losing allocation. It is easy to look at the current environment and only see the negative. As we look at the long-term outlook, we continue to see opportunities for investors who possess the patience to look in a multi-year timeframe.

2022 has been a tough year for an investor, but on the bright side, the S&P is selling at a 23%+ discount compared to the beginning of the year. This does not mean that volatility is over but over the long run, a long-term investor is likely to be upset five years from now if they were to not purchase equities at the current levels.

For investors who may need liquidity in the next 12-24 months, now may not be the most prudent time to invest. Volatility is likely to remain elevated and many macroeconomic factors will attribute greatly to the volatility. The market appears to have priced in a mild recession at the minimum, which should coincide within a close range of the June lows. Market conditions have started to deteriorate. Downward earnings revisions have started and the impacts of inflation are beginning to affect corporate profits. As an investor, these are not times for concern, but rather times to be a contrarian and go against the grain. Warren Buffet's quote; "Be fearful when others are greedy and greedy when others are fearful" is a reminder for today's environment. Extreme investor fear and pessimism has historically been the most profitable time to invest for disciplined investors.

Uncertainty is how we define the current market. In uncertain times we believe investors should remain committed to their established allocations and use this time to evaluate their investment objectives. Strategies such as systematic rebalancing have potential long-term benefits in the current environment where investors can purchase depressed assets selling at discounts. But both of these depend on an established, disciplined investment strategy.

Fixed Income Markets:

We are nearly at the high end of our rate call. At the current levels we believe we are much better purchasers of bonds. The risk/return trade-off is at one of the most attractive levels since the pre-financial crisis. We believe that we are much closer to the top in rates, despite the highly probably rate hikes over the next six or so months. Fixed investors should like the current rate structure as an opportunity.

Economic:

Housing and the consumer will be in focus this week, which are two main drivers of the economy. The final read on the University of Michigan Consumer Confidence Index will be released on Friday. New home sales, pending home sales, and mortgage applications will also be released this week.

See following page for important disclosures

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