

# Stocks Post Best Month of 2022

Despite higher-than-expected inflation data reported in June and July, the stock market continued to rally from the June 16th low to turn in the best month so far in 2022. The S&P 500 kited higher +9.11%, the NASDAQ Composite climbed +12.35%, the Russell 2000 rose +10.38% and the MSCI ACWI ex-USA increased a modest +3.24% during the month. The 10-year US Treasury declined from 2.98% last month to 2.64% at the end of July, which led to a +2.44% gain in the Bloomberg US Aggregate index down. (CHART 1)

when Russia decided to invade Ukraine. These challenges led to a break of the long-term positive uptrend in bond and stock prices and ultimately led to the Bloomberg US Aggregate bond index and the S&P 500 stock index to decline by over -10% and -20%, respectively, by the end of the second quarter.

For reference, the fed funds rate was raised on March 16th for the first time since 2018. The yield on the 10-year US Treasury at the time was 2.16%. It went on to peak on June 14th at 3.48% and really

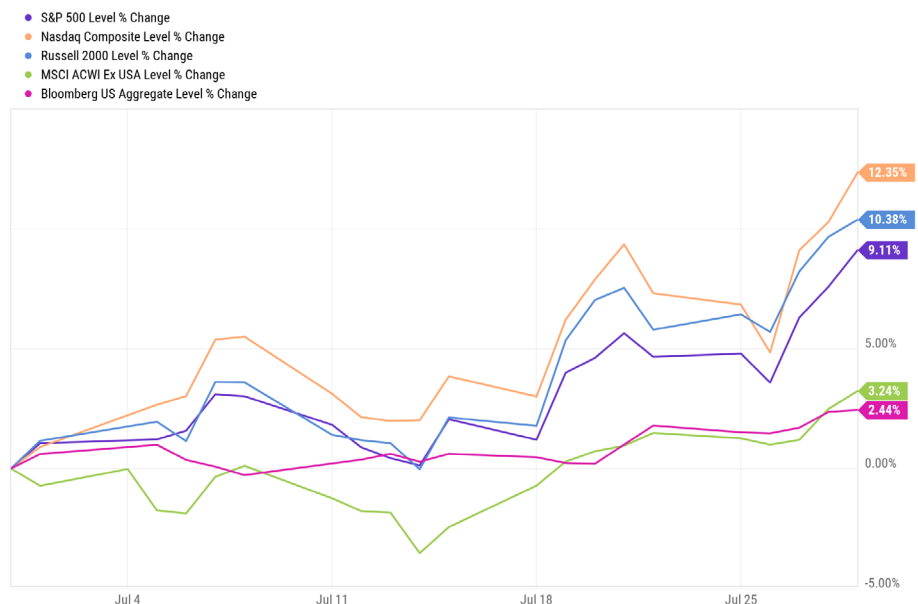
started to break lower on June 17th. We believe this breakdown in yields has likely been a primary driver of the stock market rally that also started on June 17th. This decline in yields may seem counterintuitive given the Fed has raised the targeted Fed Funds rate from 0.25% - 0.50% in March 2022 to 2.25% - 2.50% today. In other words, the Fed is raising rates, but intermediate-term yields have in fact declined in the Treasury market.

The stock market has also started to react positively to negative earnings reports. This type of action is generally considered positive as it implies that stock prices are starting to reflect slowing growth and earnings. This often leads to positive stock returns as investors may be

buying today expecting brighter days ahead. The stock market is, after all, forward-looking.

Finally, we think it is important to note that the current rally has differentiated itself from the previous rallies this year. Recall from our June 2022 Portfolio Partners Newsletter that the previous rallies ultimately ran into price resistance and

Chart 1 - Stocks and Bonds Rally in July



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Aug 01 2022, 10:27AM EDT. Powered by YCHARTS

## Positive Clues are Emerging

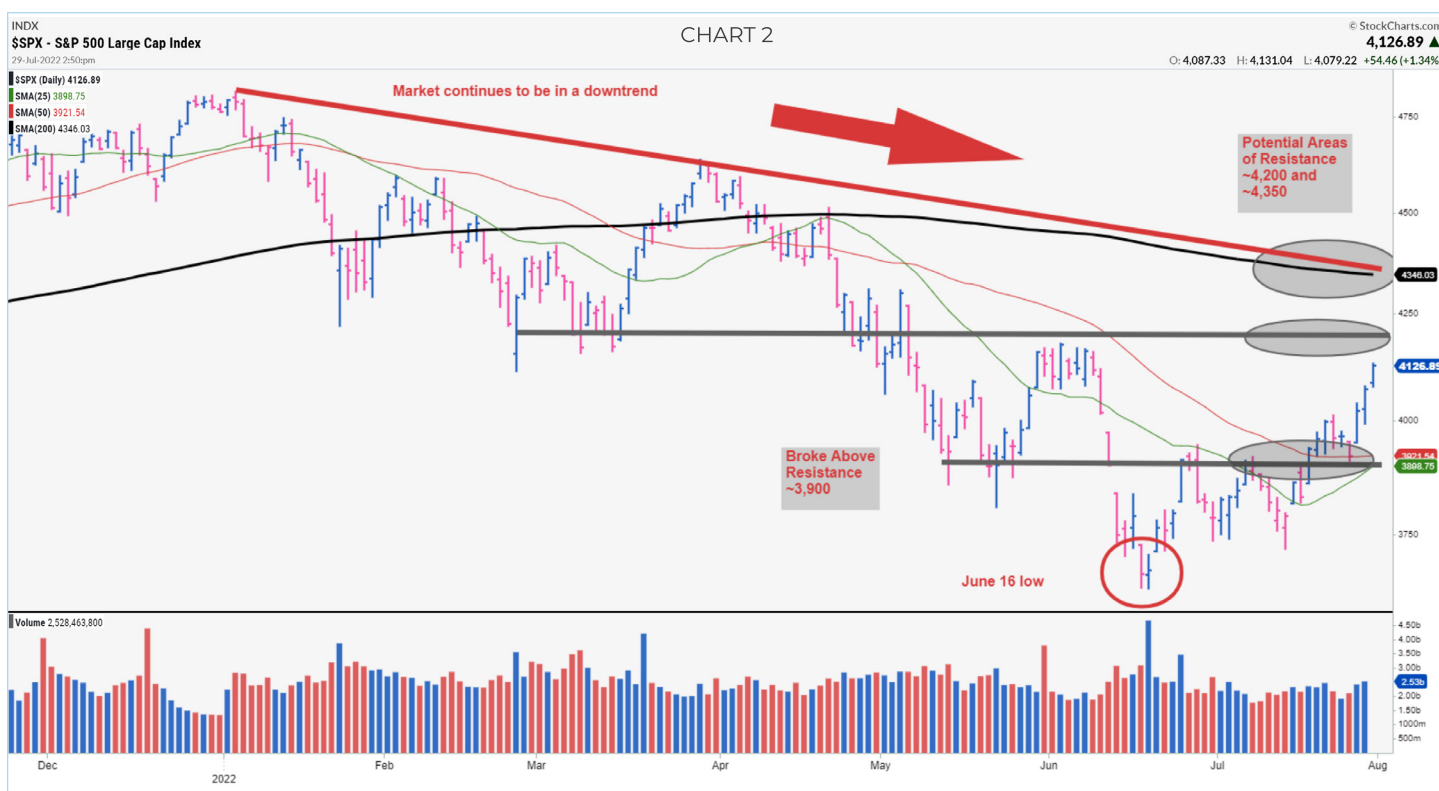
We entered 2022 with stocks near all-time highs and interest rates near all-time lows. The stock market peaked in early January 2022 likely based on fears regarding rising inflation, rising rates and potential slowing economic growth. This difficult environment was compounded in February 2022

reversed lower. This time appears to be different as prices have rallied above resistance around 3,900 on the S&P 500 that we noted in that same newsletter. (CHART 2)

### It's a Process

We view the evidence above as small, but important clues that the market environment may be starting to improve. This is a welcome change and it is a sign of progress; however, the market remains in

a downtrend and further resistance currently lies around 4,200 and 4,350 on the S&P 500. This likely means that we are not yet in the clear, but finding a market bottom is a process and not a point in time. The positive stock market action during July 2022 is a necessary step and the market cannot resume a positive uptrend without first taking these steps. Our model portfolios continue to be relatively defensive, but this recent action has us ready to make incremental actions if further positive evidence is revealed.



### MARKET TRACKER – 7/31/2022

INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	0.39%	-5.15%	12.85%	12.81%
MSCI EAFE	-3.88%	-14.62%	3.34%	3.16%
BAR AGG BOND	1.49%	-8.98%	-0.17%	1.28%

(Source: yCharts)

S&P 500	4,130.29
DIJA	32,845.13
NASDAQ	12,390.69
OIL	\$98.62 /BARREL
GOLD	\$1,762.90 /OUNCE
10-YEAR TREASURY FIELD	2.64%
UNEMPLOYMENT	3.60%
GDP	-0.90%
PPI	11.29%
CPI	9.06%

(Source: yCharts and Dorsey Wright)

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad based index. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman Aggregate

Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The MSCI All-Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.