Economic outlook.

Second Quarter 2022.

The "value restoration" project is underway.

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SEI recently released its second-quarter Economic Outlook. A summary of the conclusions is provided below:

- The second quarter of 2022 was a tough slog for investors with relatively few places to hide. Stocks and bonds simultaneously faced steep price declines amid extreme volatility, while commodities recorded a broad and robust gain.

- Stocks experienced peak-to-trough declines of more than 30%, including the Russell 2000 Index, the NASDAQ Composite Index, and the S&P 500 Index information technology sector. Energy, which was up nearly 30%, was the sole sector to post a gain for the six-month period.

- Bonds did not provide much of a diversification benefit. Long-duration bonds, as measured by the Bloomberg U.S. Government/Credit Index, have suffered a year-to-date decline of nearly 20%.

- Overall, the reasons for financial market carnage are well-known: the worst inflation in four decades; the turn in global central-bank monetary policies from extraordinary ease to more restrictive settings; Russia's invasion of Ukraine; and fears that China's zero-COVID-19 policy will continue to disrupt not only its own economy but that of the world.

- The poor performance of the equity and bond markets suggests that considerable bad news has already been priced into financial markets. We view price declines in the equity market as value restoration, returning stock valuations (particularly for high-flying growth and technology names) to something more reflective of economic fundamentals.

- Bond pricing reflects the removal of extraordinary levels of government-sponsored stimulus from the fixed-income market and rising inflation. We believe the damage has been done, inflation will slow, and any recession will take place later versus sooner and be on the milder side.

- Federal Reserve (Fed) Chairman Jerome Powell still hopes that the central bank can achieve a soft landing for the U.S. economy, where inflation gradually decelerates back to the 2% target without a recession. At present, the central bank still appears woefully behind the inflation curve.

- There is no denying that rising interest rates will slow economic growth. We believe the financial strength of U.S. businesses and households is likely to ebb. However, the starting point is a very high one.

- Leading indicators of economic activity are already pointing to below-average economic growth for many countries. A mild recession along the lines of the 2001 experience appears to be a more likely economic scenario than a re-run of the global financial crisis.

- Evidence suggests that the U.S. economy may continue to show a resiliency that surprises both the Fed and investors. The labor market, for instance remains exceptionally tight.

- While inflation and recession are the headline risks, we think much of the damage has been done, but predicting the future is a hazardous venture most of the time. In view of the uncertainties facing investors at the present time, the prediction game is, even more challenging. Accordingly, SEI believes in a diversified approach to investing. A focus on diversification, fundamentals and sound planning matter more now than ever.

A full-length paper is available if you wish to learn more about these timely topics.

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