

Stock and Bond Returns Suffer In June

Broad market returns were mostly lower during the month of June likely due to continued high inflation and the Federal Reserve's aggressive actions to fight that trend. The S&P 500 was down -8.39%, the NASDAQ Composite fell -8.71%, the Russell 2000 declined -8.37% and the MSCI ACWI ex-USA gave up -8.84% during the month. The 10-year US Treasury increased significantly from 2.85% last month to 2.98% at the end of June, which led to a -1.57% decline in the Bloomberg US Aggregate index down. (CHART 1)

This situation was not largely unexpected as we entered the year and we closely watched during the early months as the stock market demonstrated surprising resiliency in the face of so much bad news.

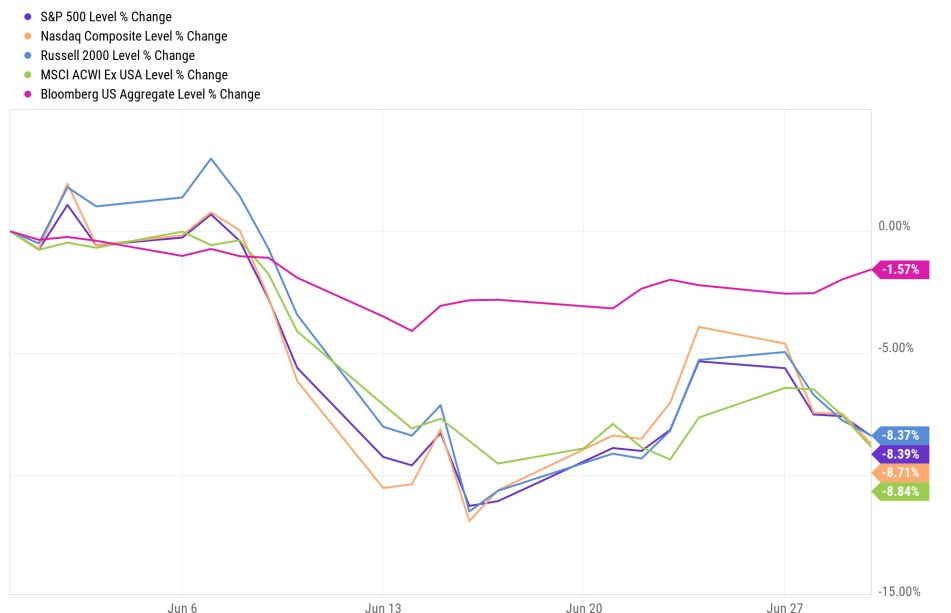
The market character, however, changed during May as investors continued to grapple with rising energy costs, inflation and rising interest rates. This is a challenging situation as the rising costs have the potential to reduce future earnings and the rising interest rates have the probable impact of

lowering the price investors are willing to pay for assets. In other words, corporate earnings are likely going down and the market will pay less for those lower earnings. We believe this combination has been a primary catalyst leading to the current downtrend in the stock market.

We reiterate that we strongly believe this market downtrend should be respected. Our 25+ years of experience has reinforced this lesson. Accordingly, we are currently positioned relatively defensive in our model portfolios and think it is prudent to remain so while the market remains in a defined downtrend. We will,

however, remain diligent watching for clues that this market character is changing. Much like we took several small steps to create a more defensive position, we will take a measured approach when removing that defense and adding offense back into our model portfolios when the time is appropriate.

Chart 1 - Stocks and Bonds Tumble in July



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Jul 01 2022, 10:34AM EDT. Powered by YCHARTS

Respect the Downtrend

After a decade-plus of mostly positive stock and bond returns, investors are experiencing a very difficult year of negative returns in the stock market as well as the bond market, which has historically been considered a refuge during market volatility.

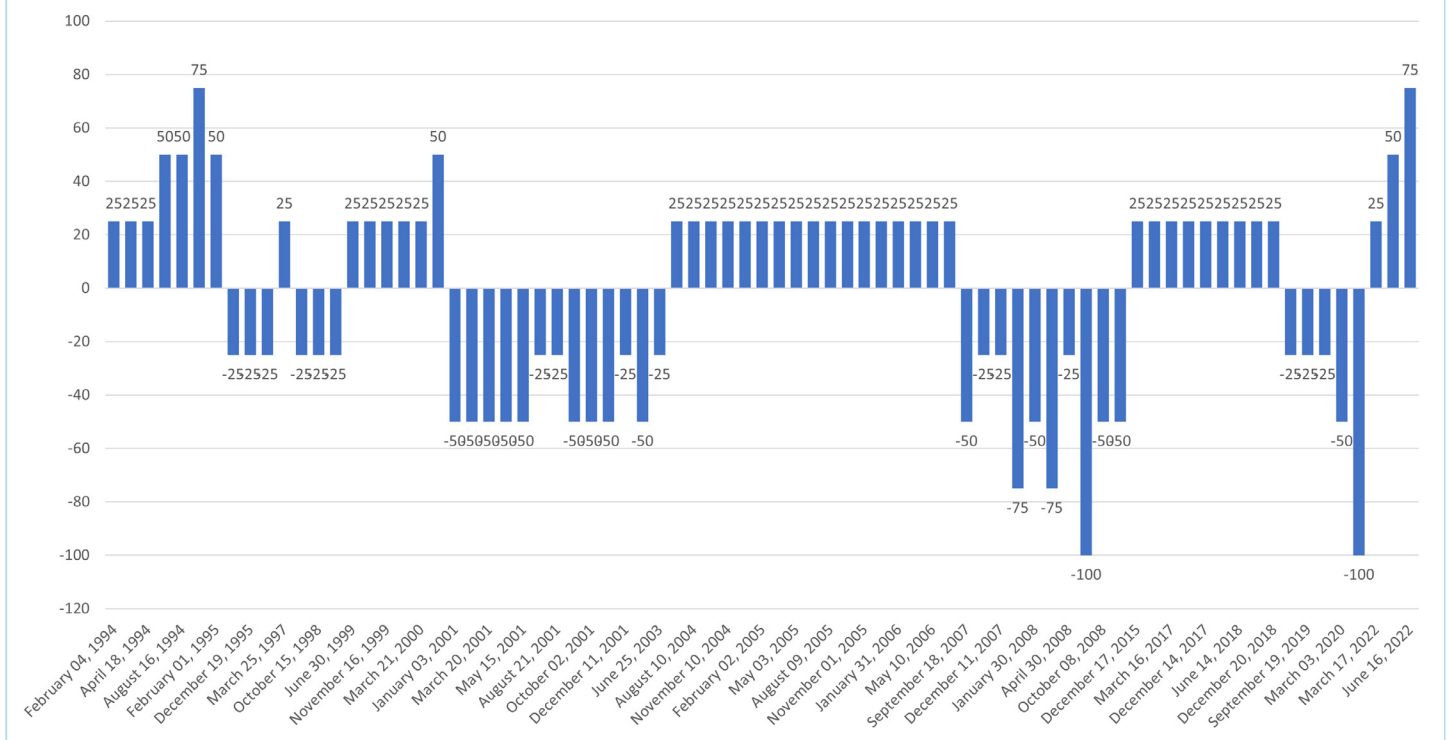
History of Fed Fund Movements

The Federal Reserve Board met on June 15 - 16 to set a target range for the Fed Funds rate. They made the historically uncommon decision to raise rates by 0.75% from 0.75% - 1.00% to 1.50% - 1.75%. This was the most significant increase by the Fed since November 15, 1994, when they increased rates from 4.75% to 5.50%. Please refer to CHART 2 for a historical context of Fed rate changes going back to 1994.

The Fed has communicated that they will continue to raise rates and reduce balance sheet holdings until

inflation shows signs of regressing toward their 2% target. This is a very different economic environment in which to invest compared to the previous 11 years when the Fed's policy was very accommodative towards positive stock market returns. We believe this change in Fed policy must be recognized by investors and be reflected in a generally more defensive stance. We will update clients when we believe this stance has changed and a less defensive position is warranted.

CHART 2
History of Fed Funds Rate Change
Source: Federal Reserve and Portfolio Partners



MARKET TRACKER – 6/30/2022

INDEX	3 mo	1 yr	3 yr	5 yr
S&P 500	-17.41%	-10.62%	10.6%	11.31%
MSCI EAFE	-22.83%	-17.33%	1.54%	2.69%
BAR AGG BOND	3.15%	10.29%	-0.93%	0.88%

(Source: yCharts)

S&P 500	3,785.38
DJIA	30,775.43
NASDAQ	11,028.74
OIL	\$105.76/BARREL
GOLD	\$1,804.10/OUNCE
10-YEAR TREASURY FIELD	2.98%
UNEMPLOYMENT	3.60%
GDP	-1.60%

(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 pass-throughs), 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.

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