JOHLFS Financial Group

MARKET WATCH UPDATE

Market Index	Close	Week	YT D
DJIA	32,803.47	-0.13%	-9.73%
NASDAQ	12,657.55	+2.13%	-15.10%
MSCI-EAFE	1,941.71	+0.23%	-16.88%
S&P 500	4,145.19	+0.36%	-13.00%

TODAY'S TOPICS

- Midyear Outlook: Navigating Turbulence & Midterm Elections Impact
- What we are Watching
- Behavioral Finance Topic-of-the-Week
- Key Market Levels
- Mark your Calendar: 9/7 – Investing in Innovation Seminar

LPL RESEARCH PRESENTS
MIDYEAR

outlook

2022

NAVIGATING TURBULENCE

The sources of (2022) turbulence are clear. A global economy that was already vulnerable to inflation from supply chain disruptions, tight labor markets, excess stimulus, and loose monetary policy came under more pressure when Russian aggression in Ukraine added sharply rising commodity prices and Europe on the brink of recession to the mix. The effects have included renewed pressure on interest rates, which hurt bond investors and contributed to tightening financial conditions, and a much more aggressive stance by the Federal Reserve (Fed) and other global central banks. The Fed in the typical market challenging of a midterm election year and the first year of a bull market, and it's not surprising it's been a bumpy ride.

Midterm Elections – The pendulum almost always swings back towards the opposing presidents' party

- Midterm elections are often a balancing act for voters, historically tilting heavily against the sitting president's party.
- Since 1900, the president's party has lost House seats in midterms 87% of the time, averaging 30 seats lost (remember, all House seats are up for re-election in midterms).
- In the Senate, where only about one-third of seats are up for grabs, the president's party has lost seats 67% of the time with an average loss of three seats.

The year after midterm elections has historically been quite strong for stocks (see below chart). Incredibly, the **S&P 500 has been higher a year after every midterm election since 1950**. That is 19 out of 19 years, with the average gain a year later a very solid 14.5%.

Policy

One of the things we know coming into this year was that 2022 will be a midterm year—and those have historically not been kind to stocks. In fact, since 1950, midterm years have been the largest peak-to-trough pullback of the five years of the presidential cycle, with the S&P 500 index down 17.1% on average during the year. The good news is, one year off those lows, stocks have been up more than 20% on average. And the S&P 500 has been higher a year after every midterm election since 1950—19 out of 19 years—with an average gain one year later a very solid 14.5%. It looks like a divided government is in the cards, which markets have historically liked.

Economy

We believe the domestic economy will continue to grow this year, albeit slower than we expected six months ago. Other than the anomaly of a negative print in first quarter gross domestic product (GDP), we think the economy has sufficient momentum to offset the inflationary pressures. Our base case forecast includes an inflation rate that moderates as supply bottlenecks improve and we potentially get some closure to the Russian war with Ukraine. (for most likely scenario is the conflict continues but Russian forces are ultimately unsuccessful in their land grab) We forecast 2% growth and another downshift to under 2% in 2023. These are annual figures so intra-year economic activity could be quite volatile as the Fed becomes more aggressive in the tightening cycle.

Inflation

Inflation will most likely be significantly above the Fed's long-run target of 2%. Inflation rates will likely cool throughout this year, but the cool down period will be long and slow. Some inflation pressures should subside as China adjusts its COVID-19 policy and supply chains improve. A slowing housing market could also eventually ease inflationary pressures later this year and into 2023.

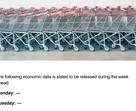
Stocks

Stocks will face a number of headwinds in the second half of the year, but the amount of turbulence will likely depend on the pace at which inflation falls. Volatility may persist, but an improved macroeconomic environment may set the stage for higher valuations, better earnings growth, and solid gains for stocks over the rest of the year. The challenge comes from predicting how fast inflation will come down. Our year-end fair value target for the S&P 500 is 4,300–4,400, based on a price-to-earnings ratio of 18–19 and our 2023 S&P 500 earnings per share forecast of $225.

Bonds

The value proposition for core bonds is that they tend to provide liquidity, diversification, and positive total returns to portfolios. Unfortunately, none of those values is 100% certain all the time. Like all markets, fixed income markets are forward-looking, and they can move quickly when new data is suddenly priced in. Prior to the year, the value proposition for core bonds has actually improved recently. With the big jump in yields that has already taken place this year, we believe core bonds look as good as they have in quite some time. As rate hikes work their way through the economy and slower growth starts to get priced in, we could see the 10-year Treasury yield end the year between 2.75–3.25%.

WHAT WE ARE WATCHING



The following economic data is slated to be released during the week ahead:

Monday: —

Tuesday: —

Wednesday: Consumer Price Index (CPI)

Thursday: Jobless Claims. Producer Price Index (PPI)

Friday: Consumer Sentiment

BEHAVIORAL TOPIC OF THE WEEK

"Behavioral finance rests on a simple premise: The biggest risks in investing are embedded in ourselves as decision makers. Biology encourages our brains to take cognitive shortcuts that can cause big problems." -Peter M.J. Gross

There are six emotional biases:

1. Loss aversion.
2. Overconfidence.
3. Self-control.
4. Status quo.
5. **Endowment.**
6. Regret aversion.

Definition: Endowment bias occurs when a person values an asset more when they own it than when they do not.

Effect of Endowment bias:

- Endowment bias may inspire investors' failure or reluctance to dispose of certain assets and replace them with others.
- Investors tend to maintain ownership of assets with which they are familiar.
- In some cases, an investor's asset allocation may not be suitable. Consequently, there could be incongruence among an investor's investment portfolio, risk tolerance, and financial goals.

How to Detect and Overcome Endowment Bias:

Wealth managers have seen clients hesitant to sell inherited securities due to endowment bias. Such clients could be seen as disloyal by selling inherited securities.

(Source: CFA Institute, AnalyzePhilly)

MARKET SUPPORT

The key level of support to watch for the S&P 500 is at around the 3,666 level.

The key level of resistance to watch for the S&P 500 is at around 4,000 to 4,100

Recall these are key technical levels we look for the market to either hold or push through when look at the potential for future moves. Common support levels can be the 50- and 200-day moving averages as well as other technical levels such as previous market highs or lows.

DON'T MISS OUR NEXT ZOOM SEMINAR..

Delaware Investments®
A member of Macquarie Group

Date: Thursday, August 18

Time: 5:00-6:00pm MT

Where: Zoom

Host: Bradley J. Warden - Managing Director, Senior Portfolio Manager for Ivy Investments (now part of Macquarie).

RSVP: Not necessary - Click the button below to join the session.

How do the advances in technology impact our lives today? During this hour long Zoom, we will discuss the following topics:

1. Data & Economics:

-How does 'Big Data' affect you and your family?

-Can Data evolution simplify daily life?

-What is the Tradeoff between privacy and sufficient information?

2. Transportation

-Autonomous driving and flying taxis?

3. FinTech

-Stock trading more accessible than ever to mass market consumers with heavily gamified user interfaces

4. Biotech & Genomics

-The cost to sequence a genome

-Editing DNA

-Living therapies and One-Dose cures

Bradley Warden & Ivy Investments are not affiliated with Johfls Financial Group or LPL Financial.

Click to Join

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