MARKET VIEW WEEKLY

June 17th, 2022

ECONOMIC REVIEW[1]

- The Federal Reserve instituted its first 75 basis point (bps) hike in the federal funds rate since 1994, setting the target range at 1.5% to 1.75%.
    - In the decision to move to 75 bps after it was more or less certain the Fed would hike just 50 bps, the central bank demonstrated to investors that they are willing to be both more aggressive and more nimble in response to unexpected surprises in economic, specifically inflation, data.
    - No doubt, the combination of an unexpectedly elevated CPI reading and a surprisingly dour University of Michigan Consumer Sentiment report had a significant effect on policy makers.
- So far this year, fed funds futures markets have markedly outpaced the fed funds rate target range.
    - Efforts to close that gap seem to mollify markets – participants view the shift as the Fed normalizing its view on economic conditions and becoming more realistic in their assessment of inflation.
    - The midpoint of the dot plots for individual members expectations now shows the benchmark rate finishing the year at 3.4%.
- A follow up 75 bps in July would put the fed funds rate nearly in line with feds funds futures in short order and leave the option to be more restrictive later in the 3rd or 4th quarter, after a pause in August.
    - In addressing terminal value, Chair Powell didn't dispute a speculated range of 3.5 – 4.0% but cautioned that we would "know when we get there."

How does Fed Policy impact you?

- The Chairman expects that range would see positive real rates across the curve, though stressed they would "find this out empirically, [won't] be completely model driven about this, and will [remain reactive] to incoming data both on financial and economic conditions."
    - Positive real rates would reestablish the much-maligned fixed income asset class as a reasonable, even attractive, investment option as coupons reset higher.
- While some volatility should be expected, this may have established a sense of stability in markets.
    - A more realistic path for interest rate hikes (one more in line with market expectations in the face of challenging economic conditions marked by significant inflation) at least makes it possible to make investment projections more intelligently, i.e. feel more comfortable buying.

A LOOK FORWARD[1]

- This week, initial and continuing jobless claims publish on Thursday, and the final reading for June's University of Michigan Consumer Sentiment index releases on Friday.

How do Unemployment and Consumer Sentiment impact you?

- Maximum stable employment is the second critical piece of the Fed's dual mandate, along with price stability. Although keeping unemployment down is important, the historically low levels seen currently have this objective taking a back seat to wrangling inflation. The final University of Michigan survey should provide some insight on the stability of long-term market expectations for prices.

MARKET UPDATE

Market Index Returns as of 6/17/22[1]	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-5.75%	-18.59%	-22.33%	-10.51%	9.35%	10.53%
NASDAQ	-4.76%	-23.92%	-30.72%	-22.50%	11.18%	12.82%
Dow Jones Industrial Average	-4.73%	-13.36%	-16.91%	-8.47%	5.99%	9.22%
Russell Mid-Cap	-7.42%	-18.85%	-23.46%	-16.61%	5.63%	7.43%
Russell 2000 (Small Cap)	-7.43%	-19.30%	-25.37%	-24.69%	3.41%	4.83%
MSCI EAFE (International)	-5.73%	-14.74%	-19.78%	-18.06%	1.07%	2.11%
MSCI Emerging Markets	-4.65%	-11.78%	-17.94%	-24.73%	0.55%	2.20%
Bloomberg Barclays US Agg Bond	-0.92%	-5.89%	-11.48%	-11.43%	-1.31%	0.52%
Bloomberg Barclays High Yield Corp.	-1.19%	-8.68%	-13.10%	-11.15%	0.62%	2.37%
Bloomberg Barclays Global Agg	-1.26%	-9.11%	-14.71%	-16.07%	-3.43%	-0.72%

OBSERVATIONS

- U.S. equities retreated for the week S&P down -5.75%
- Small caps also gave up ground and underperformed their larger counterparts with the Russell 2000 shredding -7.43%
- International stocks outperformed domestic equities, but still in the red down -5.73%.
- Emerging markets were negative returning -4.65%.
- U.S. investment grade bonds were negative with the Bloomberg Barclays U.S. Aggregate Bond index down -0.92%

BY THE NUMBERS

ANOTHER BEAR - When the S&P 500 closed at 3667 last Thursday 6/16/2022, the index was down 23.6% from its all-time closing high of 4797 set on 1/03/2022, i.e., qualifying as a "bear" market decline of at least 20%. The drop was the index's 11th "bear" since 1950 but its 2nd since the start of the global pandemic. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

IT MAY TAKE AWHILE - After suffering 10 separate "bear" markets between 1950 and 2021, the S&P 500 recovered and eventually achieved a new all-time closing high each time. The average length of time it took to retrace its steps from a "bear" market low to a new closing high was 25 ½ months or more than 2 years. The quickest recovery for stocks took place over just 3 months (in 1982) while the longest recovery took 70 months or nearly 6 years (between 1974-1980) (source: BTN Research).

TREASURYS - As of the end of fiscal year 2021 (9/30/2021), the Fed held more than twice the level of Treasury securities ($5.4 trillion) as held by Japan ($1.3 trillion) and China ($1.0 trillion) combined (source: CBO).

NOT A HAPPY CAMPER - "Consumer sentiment" of the American shopper, an indicator of how optimistic consumers feel about their finances, fell in June 2022 to its lowest level ever. "Consumer sentiment" has been tracked monthly since January 1978 (source: University of Michigan).

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.
NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.
Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.
Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.
Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as
of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.
MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.
MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US 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 securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).
Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition,
are excluded.
Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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[1] Data obtained from Bloomberg as of 6/17/2022

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