June 30, 2022
Economic Update

Financial Market Update

US markets entered bear market territory during the 2nd quarter with concerns over inflation morphing into fears of slowing economic growth. Market sentiment shifted as it became apparent the Federal Reserve would have to raise interest rates more than forecasted, increasing the likelihood of a recession. Real Estate had the weakest performance on the equity side, down -17.2% for the quarter, while US Large Cap equities fell 16.1%. Fixed Income continued to experience volatility – and was down -4.7%. It is rare for both Equities and Fixed Income to be negative at the same time. This is only the fifth period in which the markets have experienced back-to-back negative quarters for both asset classes since the 1970s.

As we head into the 2nd half of 2022, market performance will be driven mainly by (1) the Federal Reserve's policy actions to combat inflation, (2) economic data on US growth, and (3) mid-term elections. Although the US economy continues to have strong support from consumers and companies, higher prices are weakening consumer spending and sentiment.

Asset Class	Q2 2022
US Core Bonds	-4.7%
Multisector Bonds	-6.1%
Infrastructure	-7.7%
Emerging Markets	-11.5%
US Small Cap	-14.1%
Developed International	-14.5%
US Mid Cap	-15.4%
Equity Alternatives	-15.9%
US Large Cap	-16.1%
Real Estate	-17.2%

An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly

Interest Rates & Inflation

The Fed tightened monetary policy at their May and June meetings. In May the Fed raised rates 0.50% as expected. Higher than expected inflation readings before their June meeting led the Fed to tighten 0.75% instead of the expected 0.50%. The committee has signaled its focus is on controlling inflationary pressures. They are expected to increase rates a further 0.75% at their July meeting and either 0.50% - 0.75% at their September meeting. Aggressive tightening policy continued to weigh on bonds, although interest rate increases seem to be priced into the market at this point. The inflation rate was 9.1% for the 12 months ending June 2022, the largest annual increase since 1981.

Employment

Job growth remains strong despite fears of slowing economic growth. The June report showed job gains of 372,000, which was well above economists' forecasts, and the unemployment rate held steady at 3.6%. For the 2nd quarter, job growth averaged 375,000 per month. The private sector economy has recovered all pandemic-related job losses, although public sector employment remains below February 2020 levels.

US Economy

1st quarter 2022 GDP growth fell by 1.6%. This weakness was expected due to the Omicron variant and a decrease in net exports. US growth is still projected to remain positive for 2022, but projections have continued to be revised downward throughout the first half of this year. Economists are currently projecting 1.5% - 2.0% growth for 2022. This has sparked discussion of a potential recession for the US economy.

Bear Markets and Long-Term Investing

- Although challenging to go through, bear markets are part of long-term investing. The causes of each may differ, but the declines have proved temporary, and investors were rewarded for staying the course with higher long-term returns.
- There have been twenty-six Bear Markets and twenty-seven Bull Markets since the 1920s. The average decline was 33%, and the duration was nine months before beginning to recover. Notably, over half of the best days in the US stock market occurred during Bear Markets, showing the difficulty in timing such events.
- We continue to assess the current environment for opportunities, and if a change to your strategy is warranted, we will reach out to you. Please let us know if you have any questions or want to discuss anything further.