Market Commentary – Second Quarter 2022

The major equity market indices for the second quarter suffered significant declines in a continuation for 2022 of the reversal of the markets' rally over the past three years after the S&P 500 index's peak on January 3, 2022. The returns for the first half of the year were the worst since 1970. Notably, the U.S. Aggregate Bond index posted its worst six-month start of a year in its history. The table below provides year to date and second quarter returns as of 6/30/2022

Percentages (%s) are for total returns				
Time Period	**Dow Jones Industrial Average**	**S&P 500 Index**	**Nasdaq Composite**	**Barclays U.S. Aggregate Bond**
Year To Date	-14.4%	-20.0%	-29.2%	-10.3%
Second Quarter	-10.8%	-16.1%	-22.3%	-4.7%

The U.S. financial markets and economy are under pressure

The U.S. economy is under significant pressure from inflation. The CPI, which is largely driven by food and energy prices, surged in May to an 8.6% annual rate – the highest rate of change in forty years. However, at this point prices are up broadly across most categories. Price pressure that the Federal Reserve labeled as transitory turned out to be systemic and persistent. That has forced the Fed to pivot from holding interest rates at historic lows to raising them rapidly to use its tool that it has to cool inflation. The Fed is committed to further rate increases to stamp out high inflation as a higher concern than slowing the economy into a downturn. This reversal by the Fed has dramatically increased short-term interest rates and changed the sentiment of investors from making bets on high valued rapidly growing companies to looking for safety in cash and/or rotating into sectors considered less volatile like consumer staples and utilities. Only the Energy sector posted a positive return in the first half of the year benefiting from higher prices for crude oil on the world markets brought on by the Ukrainian war.

The second half of the year could be positive

As we enter the second half of 2022, the likelihood of a recession increases. Economic momentum is slowing due to rising inflation, higher interest rates, the ongoing Russia-Ukraine conflict, a surge in 30-year mortgage rates-all resulting in falling stock prices. The S&P 500 and Nasdaq have been officially in bear market territory. Consequently, consumer confidence is at the lowest level on record. This earnings season, corporate profits will face many headwinds-increasing wages, higher commodity and transportation costs and higher interest rates, and supply chain disruptions. During the first quarter, earnings per share rose by 4.2% year over year, however analysts are expecting less than an 8% gain for the full year.

Is there light at the end of the tunnel? Periods of panic in the market have provided an opportunity for long-term investors. Over the long term, buying during a peak in consumer confidence resulted in an average return of 4.1% compared to buying during a trough (when economic activity hits a low point in its down cycle) provided investors with an average return of 24.9%. Since 1980 when the S&P 500 has been down greater than 15% during the first half of the year, the average one-year return from the low has been 23%. While past performance does not guarantee future performance, these numbers are encouraging.

We continue to manage for the long term

Our investment management for the remainder of 2022 and beyond continues to remain focused on fundamentals and valuations. We are focusing on high-quality dividend paying companies with strong cash flows, with low debt, that are better equipped to weather a recession storm. These are mostly defensive companies in the consumer staples, healthcare, and the utility sectors. On the fixed income side as current bond holdings mature, we are utilizing short duration U.S. Treasury Bonds for their safety, liquidity and 2-3% yield, and high quality corporate and municipal issues. There is a lot of uncertainty, and it is reflected in the market's volatility. Your peace of mind is very important to us, and the lines of communication are open to review your portfolio's target allocation or discuss any specific needs and/or questions with us. We look forward to connecting soon with you via a live meeting, voice, or video call.