QUANTITATIVE ASSET MANAGEMENT, LLC
Investment & Advisory Services

July 14, 2022

Quarter Ending June 30, 2022

Quarterly Performance	Q1 Index	YTD	Close
Dow Jones Industrial Average	-11.25%	-15.31%	30,775.43
NASDAQ Composite Price	-22.44%	-29.51%	11,028.74
Standard & Poor's Averages	-16.45%	-19.96%	3,785.38

As we anticipated, and pointed out in our Q1 letter, the broad-based equity and bond markets continued to experience significant volatility in the second quarter. The S&P 500 is down 19.96% year-to-date, which is the worst first half of any year since 1970. As of June 13th, the S&P officially entered a bear market.

Bonds, which investors typically count on to counterbalance stock declines in their portfolios, have not fared much better: The U.S. bond market, as measured by the Barclay's Bond Index, is down 10.35% year-to-date, putting it on pace for its worst performance in modern history.

The above numbers are jarring and not easy to stomach. That said, if you have been an avid reader of our letters, you know that the stock and bond market volatility is something we've been anticipating. Our clients have been able to weather most of this storm and have not experienced the full impact of the market's pullback.

Today's markets are facing a tidal wave of uncertainty. Inflation, supply-chain snarls, geopolitical tensions, war in Ukraine, and the possibility of recession are all issues we're facing as investors. And until some of these problems are resolved, or at least mitigated, the markets will continue to be volatile. One can guess at the eventual outcomes, but nobody will be able to accurately predict where things will fall.

One of the biggest questions moving forward is this: Is the U.S. economy is heading into a recession? By definition, a recession is identified by a fall in GDP in two successive quarters (6 months). It is possible that we are already in a recession, but we won't know until the GDP numbers are released at the end of July. There have been 12 economic recessions since World War II. Those lasted an average of 11 months. In short, by the time you read the U.S. economy is slowing, we will be halfway through the average recession cycle.

The talk of recession naturally leads us to ask: what will happen to the markets? At this point, investors are already pricing in some kind of economic slowdown. Recent market performance and the entrance into a bear market reflect those expectations. According to First Trust, the average cumulative loss during a bear market is 32.1%. In general terms, with the recent S&P 500 performance, we are closer to a market bottom than top.

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In today's uncertain environment, we are reminded of a quote from Warren Buffett: "It's only when the tide goes out that you find our who's been swimming naked." We have covered this at length, but the 2021 equity and bond markets were pushed to extremes by stimulus payments, extremely low interest rates, borrowing, and manic speculation. These catalysts were not sustainable and not representative of a healthy market.

With all the economic uncertainties ahead, we continue to expect more market volatility. Plenty of investors will be speculating as to where the markets will go from here. At QAM, we will continue to focus on valuations and fundamentals. These principles are they key to being a successful long-term investor, and they have served our clients extremely well during this recent market downturn.

If you have any specific questions, please send us an email or give us a call.

All the best,

Jeffrey L. Farni, Sr.

John C. Farni