MONTHLY MARKET COMMENTARY

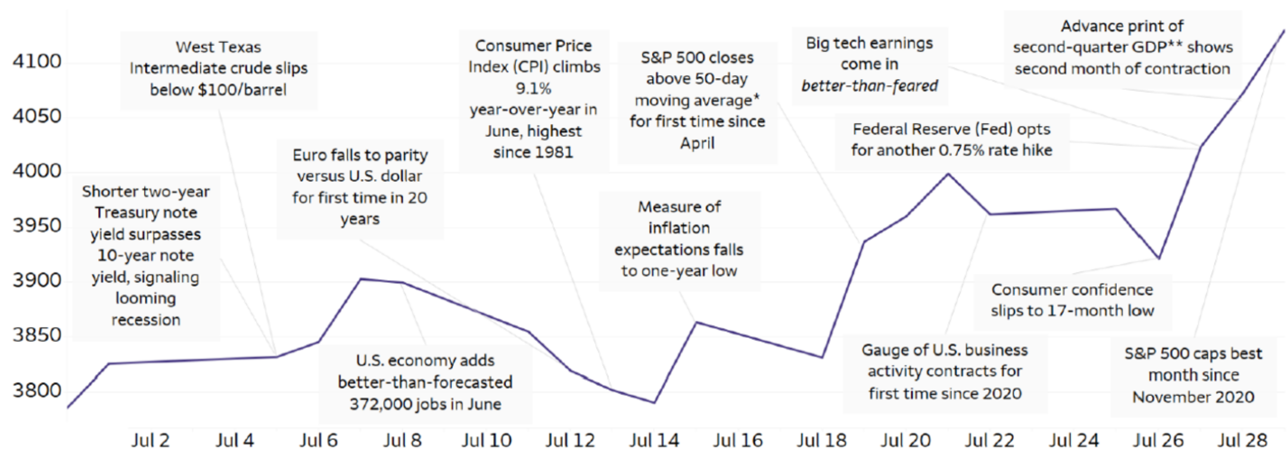
After their worst start to the year since 1970, stocks rallied off lows in July to close out their best performing month since 2020. Despite being one of the worst performing sectors this year, technology stocks rallied more than the broader market. Oil prices fell to under $100 a barrel. The Consumer Price Index, a commonly referenced inflation indicator, rose to a new high of 9.1%. As a result, the Federal Reserve implemented a second straight 0.75% rate hike. To the surprise of many market strategists, the most recent GDP data established a downtrend for two consecutive quarters (which is the definition of a technical recession). Some pundits refuse to acknowledge a recessionary market environment based on what continues to be an incredibly strong labor market. Regardless, there is no doubt that the global economy is slowing.

In the last few weeks, most S&P500 companies reported mixed quarterly results. Many companies reported revenue (top-line) and earnings (bottom-line) beats while revising their guidance downward for the fourth quarter. The bond market has continued to experience volatility; yields on 3-month Treasury Bills briefly jumped above yields on 10-year Treasury Notes. Historically, these yield curve inversions commonly precede recessions. Some of July's key market events can be seen in the chart below.

We believe the remainder of the year will continue to be volatile. We advise clients to stay patient and defensive within portfolios. The combination of a strong labor market and high, sustained inflation suggests the Federal Reserve will need to hike rates more aggressively in September and October. The Federal Funds Futures market is pricing in 0.50% - 0.75% of rate hikes in 2022. If inflation continues to run hot, we may see these expectations rise, potentially triggering an equity selloff and extension of stock and bond market volatility.

Within equities, we advise clients to allocate to energy, healthcare, and technology sectors. Energy companies provide some of the best margins and cash flow generation available in the market today. Healthcare companies are not usually dependent on the overall economy and act defensively during economic downturns. Technology names have seen large drops this year and generally bottom first during economic contractions. For clients with long-term time horizons, we see substantial value in high-quality, profitable companies that show signs of maintaining their profit margins.

S&P 500 Index with July 2022 market events



Source: Bloomberg, Reuters, and WSJ.com. *50-day moving average is a closely watched technical level. **GDP is Gross Domestic Product, a measure of economic output. An index is unmanaged and not available for direct investment. **Past performance is no guarantee of future results.**

As always, please reach out to your financial advisor with any questions or concerns.

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