

## Update on Market Volatility

2022 has shown to be a year of sustained market volatility across all asset classes. Geopolitical conflict, residual supply chain issues post-pandemic, and easy fiscal/monetary policy of the last few years have resulted in sustained inflation, overheating the economy. The Fed is now trying to catch up to cool down it down, and the market response has been swift in pricing in a global demand slowdown, tighter fiscal/monetary policy, and an acceleration into the late-stage of the business cycle.

Although top line (revenue) and bottom line (profit) has been above expectations in most of the recent quarterly reporting, most companies are lowering their guidance for the future, resulting in a re-pricing of many assets. We believe the volatility will continue for the remainder of the year, and are adjusting portfolios accordingly. We approach portfolio construction in response to where we see the business cycle:

### Cycle Phases

#### EARLY

- Activity rebounds (GDP, IP, employment, incomes)
- Credit begins to grow
- Profits grow rapidly
- Policy still stimulative
- Inventories low; sales improve

#### MID

- Growth peaking
- Credit growth strong
- Profit growth peaks
- Policy neutral
- Inventories, sales grow; equilibrium reached

#### LATE

- Growth moderating
- Credit tightens
- Earnings under pressure
- Policy contractionary
- Inventories grow; sales growth falls

#### RECESSION

- Falling activity
- Credit dries up
- Profits decline
- Policy eases
- Inventories, sales fall

We see signs that we have shifted from mid to late stage. We expect that economic growth will contract towards the end of the year, and we will see a shallow recession. We recommend approaching the construction of an equity portfolio in favor of higher quality companies, exhibiting profitability, growing cash flows, and cheap valuations in comparison to their peers. We are increasing exposure to utilities, consumer staples, and healthcare names. It is important to stay defensive, but invested, in this type of market environment. Volatility presents opportunities, and we will continue to stay active in our research and portfolio management to help you achieve your financial goals and weather these changing tides.

As always, please don't hesitate to reach out to your financial advisors with any questions or concerns.

**- The Seventy2 Capital Team**

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