# Seventy2 Capital

May 2022

## MONTHLY MARKET COMMENTARY

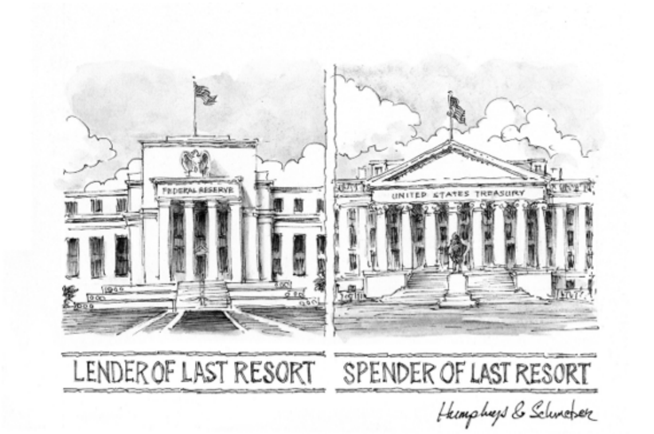
Volatility continued in May as investors repriced consumer-based sectors of US equity markets. The Consumer Discretionary and Consumer Staples sectors dropped 5% amid the growing reality that the Fed will do everything it can to slow down consumer spending (which makes up over 2/3 of the US economy). Energy, with a gain of 15%, was once again the best performing sector. Its performance was driven by the EU's additional sanctions on imports of Russian oil, further hindering supply. The Real Estate sector, down just over 5%, performed the worst. The 10-year Treasury note yield jumped to 3.20% before pulling back at month end to 2.84%, virtually where it began.

We believe the U.S. economy is at an inflection point. The Federal Reserve is trying to thread the needle to slow down the economy just enough to bring down inflation without upending growth excessively and breaking down a very strong labor market, sending the U.S. economy into a recession. The expansionary monetary policy (low interest rates and added liquidity through the Federal Reserve's bond purchases) along massive government fiscal stimulus during and after the pandemic have brought on an estimated $40 trillion increase in U.S. household net worth. Simply put, the U.S. consumer has a ton of cash with low debt obligations and has been spending that money on goods and services at a furious pace. These circumstances, in combination with supply chain issues and geopolitical conflicts, have propelled enormous demand against low supply and driven prices up on just about everything. See chart highlighting price increases of core commodities:

The Federal Reserve now needs to slow down the freight train that is the U.S. consumer by pulling liquidity from the economy through interest rate hikes and the reduction of the bond buying program. Historically, they overshoot and send a hot economy into a recession. We believe they have very low margin for error in trying to slow this train down without derailing it. The market has become as sensitive to CPI reports (inflation data) and Federal Reserve policy meetings, similarly to Covid case numbers two years ago. There is still great uncertainty amongst market strategists and economists in year end predictions for the economy and the market. The Federal Reserve has just begun hiking rates, the Russia-Ukraine conflict does not seem to be resolving quickly, and we are in an election year. Until we have clarity on the direction of inflation and the Fed's response and success in stemming it, we believe volatility will continue to be prevalent in markets.

| Commodity | YTD Price Increase |
|---|---|
| Crude Oil | 57.19% |
| Gasoline | 88.43% |
| Wheat | 35.81% |
| Soybeans | 27.33% |
| Corn | 23.14% |
| Cotton | 24.38% |

Source: Factset 06/03/2022




Volatile markets present opportunities. After seeing so many companies fall in price, we are finding values in high quality, cheap companies with positive revenue growth and low dependence on economic cyclicality. We believe we will find more as volatility continues. We continue to position defensively in U.S. equities and U.S. fixed income and are navigating these turbulent times to find the best values for our clients. This market will take patience but will likely present one of the best investment opportunities of the decade.

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

**- The Seventy2 Capital Team**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*Please join us for our Seventy2 Tuesday Monthly Webinar on June 7th at 12pm ET as we discuss these topics and more.*