Seventy2 Capital

September 2022

Monthly Market Commentary

This tumultuous year continues as inflation persists and the Federal Reserve stays on course to tighten financial conditions and pressure risk assets globally. We are seeing a decline in global growth, potential energy crisis in Europe, real estate collapse in China, and rise in geopolitical tensions worldwide. Equities and Fixed Income securities continue to see pressure; stocks are down between 20 and 35% globally and 20% of the global bond market's value has been wiped out. We advise clients to stay defensive in all asset categories, focus on high-quality investments, and remain patient as we make our way through volatility and into the next bull market cycle.

Economy

We expect to see a recession in the U.S. in 2023. We believe the length and severity of that recession will depend on how aggressively Federal Reserve policy aims to tame inflation and achieve price stability. The labor market still shows signs of strength, which will allow the Federal Reserve to be more aggressive. Although we expect a softening in the real estate market, we do not anticipate a situation resembling 2008-2009 (as we analyzed in our last market commentary). Consumers, which drive the majority of U.S. GDP, still show signs of strength. We expect to see the full effects of rising interest rates and tight monetary policy in 2023.

Equities

We expect to see further volatility in equities. We favor U.S. over international exposure and high-quality, defensive sectors like healthcare, consumer staples, and utilities. The energy sector provides the best current profitability and focuses on returning capital to shareholders. We believe that when the Fed shifts course and starts to cut rates, the best opportunities will be in the technology, consumer discretionary, and communication services sectors. Within our portfolios, we have a focus on high-quality earnings stability, growing market share, and sound balance sheets, regardless of sector exposure.

Fixed Income

We believe we will continue to see pressure on intermediate-term bonds (such as the 10-year U.S. Treasury Bond) until the Federal Reserve pauses their contractionary policy. We believe we will continue to see an inversion of the yield curve (long-term bonds yielding less than short-term bonds) until we see positive economic data and an expectation of future growth in the economy. In our portfolios, we take on a barbell structure, allocating most of the portfolio to short-term bonds and the rest to long-term bonds. Although we have seen one of the worst years for bonds on record, we may soon have one of the best entry opportunities in decades. The expectation of higher yields, and therefore higher income, presents a unique opportunity for retirees within the next 12-24 months.

Our Guidance

Be patient. Volatility will present opportunities as we transition into the next bull market cycle. We continue to stay active as we look for mispricings and opportunities in this market. Our approach is to manage downside risk during economic downturns, and we believe we are positioned appropriately and defensively in the current market environment. We recommend that clients avoid making substantial shifts in their risk appetite, and instead work with advisors to focus on investment time horizons, financial goals, and prudent allocations of assets as we make our way through this volatility.

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

-The Seventy2 Capital Team

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