



Weekly Market Commentary July 5, 2022

The Markets

The first six months of 2022 have earned a place in history books.

2022 is likely to become part of the lore passed from generation to generation. Stories will be told about this bear market, as well as the remarkable political and social events that have occurred in the United States and elsewhere. Here is a brief look back at the last three months.

- **Will the real inflation please stand up?** Prices continued to rise during the second quarter, although there was a significant difference in inflation readings. The Consumer Price Index (CPI), which reflects price changes in cities, showed inflation was up 8.6 percent in May, year-over-year. The Personal Consumption Expenditures (PCE) Price Index (excluding food and energy) which measures price changes in urban and rural areas, showed inflation was up 6.3 percent for the same period.
- **The Federal Reserve attacked inflation.** The Federal Reserve's inflation target is 2 percent. With inflation well above that level, the Fed began to tighten monetary policy aggressively. It ended its bond buying program, began to shrink its balance sheet, and raised the fed funds rate by 1.50 percent year-to-date (with 1.25 percent of that increase coming in the second quarter).
- **Bond rates rose.** Bond rates moved higher during the quarter. Since bond prices move lower when bond rates rise, many investors saw a decline in the value of bond portfolios. By the end of the second quarter, the benchmark 10-year Treasury was at 2.98 percent, up from 2.32 percent at the end of the first quarter.
- **Stock prices fell.** Evie Liu of *Barron's* reported, "Energy stocks were the only ones that posted gains in the first half [of the year] on the back of soaring oil prices, but even that sector has lost its momentum...Although energy companies are still pocketing record profits today, traders are quite aware that a recession would drag down demand, curb oil prices, and cut into their earnings."
- **Consumer sentiment tumbled.** The *University of Michigan's Consumer Sentiment Survey* showed that consumer pessimism deepened throughout the second quarter, largely due to inflation concerns. The June sentiment reading was 50, which is the lowest on record.
- **The yield curve isn't feeling it – yet.** Many people anticipate a recession next year, but bond markets don't seem to think so. One of the most credible recession-forecasting tools is the U.S. Treasury yield curve. When the yield curve inverts, meaning shorter-term Treasuries yield more than longer-term Treasuries, there is a significant probability that a recession is coming.

More specifically, when a three-month Treasury bill yields more than a 10-year Treasury note a recession is likely in the following six to 18 months, according to a study from the *Federal Reserve Bank of New York*. At the end of June, the three-month Treasury yielded 1.72 percent and 10-year Treasury yielded 2.98 percent. In other words, the yield curve was not inverted.

Markets are likely to remain volatile until investors are confident the U.S. has avoided a recession, and no one is sure that will be the case.

Last week, major U.S. indices rallied late in the week, but finished lower overall, according to *Barron's*. The yield on benchmark 10-year U.S. Treasuries moved lower.

Data as of 7/1/22	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	-2.2%	-19.7%	-11.5%	8.9%	9.5%	10.9%
Dow Jones Global ex-U.S. Index	-2.0	-20.8	-22.4	-1.2	0.0	2.5
10-year Treasury Note (yield only)	2.9	N/A	1.5	2.0	2.4	1.6
Gold (per ounce)	-1.5	-1.2	0.9	8.9	7.9	1.2
Bloomberg Commodity Index	-3.5	18.1	23.7	14.0	7.1	-1.4

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.

Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

How long does it take you to decide what to watch? We've all been there: scrolling through shows – more than 817,000 of them – trying to decide what to watch. Almost half (46 percent) of us find the experience overwhelming, according to Nielsen's State of Play report. According to a survey conducted in the United Kingdom, the average household spends:

- 12 minutes each day bickering over what to watch,
- 16 minutes channel surfing, and
- 12 minutes trying to find specific shows.

Do the math and 40 minutes a day times 365 days a year is 14,600 minutes. There are 60 minutes in an hour and 24 hours in a day, so we spend about 10 days a year deciding what to watch.

That's a drop in the bucket compared to the amount of time spent watching video content. The average American spends 4 hours and 49 minutes a day – or 68 days a year – watching video content on TV screens. About three hours are spent watching programming, and almost an hour-and-a-half is spent watching content on devices connected to TV screens.

So, what are we watching? According to Nielsen's report, "Between January and September of last year, 98% of the most viewed broadcast programs were sports."

Weekly Focus – Think About It

"History is not everything, but it is a starting point. History is a clock that people use to tell their political and cultural time of day. It is a compass they use to find themselves on the map of human geography. It tells them where they are but, more importantly, what they must be."

—John Henrik Clarke, writer and historian

Best Regards,

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- * All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
- * The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
- * The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
- * Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
- * The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- * The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
- * The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
- * International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
- * Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
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