July 5, 2022

MARKET MONITOR

Month in Review: June 2022

Index	Asset Class	2022 June	2022 YTD	2021
Equity Indexes		**Total Returns**		
Russell 3000	U.S. Equity	(8.4)%	(21.1)%	25.7%
S&P 500	Large Cap U.S. Equity	(8.3)	(20.0)	28.7
Russell 1000	Large Cap U.S. Equity	(8.4)	(20.9)	26.5
Russell 2000	Small Cap U.S. Equity	(8.2)	(23.4)	14.8
MSCI All County World	Global Equity	(8.4)	(20.0)	19.0
MSCI All Country World (Ex U.S.)	International Equity	(8.6)	(18.2)	8.3
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	(9.3)	(19.3)	11.8
MSCI Emerging Markets (EM)	International Emerging Market Equity	(6.6)	(17.5)	(2.2)
Fixed Income Indexes				
Bloomberg Barclays U.S. Aggregate Bond	U.S. Investment Grade Bond	(1.6)	(10.4)	(1.5)
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	(1.8)	(8.6)	1.6
S&P Municipal High Yield	U.S. Muni Bonds (Below Investment Grade)	(3.7)	(11.8)	6.8
Bloomberg Barclays U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	(6.7)	(14.2)	5.3
Index Blends: Stock/Bond				
80%/20%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Barclays U.S. Agg)		(7.0)	(18.1)	14.7
60%/40%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Barclays U.S. Agg)		(5.7)	(16.1)	10.5
40%/60%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Barclays U.S. Agg)		(4.3)	(14.2)	6.4
20%/80%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Barclays U.S. Agg)		(2.9)	(12.3)	2.4
Data as of 6/30/2022. Sources are Morningstar for Index returns, and Envestnet Tamarac for Index Blend returns, based on monthly rebalancing.				

Please see important disclosures at end of this report.

Economy

Markets appear to be reckoning with weakening economic outlooks, as well as a “soft landing” scenario that appears increasingly unlikely. Inflation is the main concern: U.S. inflation data (i.e., CPI) released in June (for May) exhibited a cycle high to-date of 8.6%, and the Euro Zone just reported the same 8.6% inflation rate for June, representing that region’s all-time high.[1] The Federal Open Market Committee (FOMC) hiked its benchmark Fed Funds rate by 75 basis points (bp) in June, and Committee members are signaling a 50bp or 75bp hike at its upcoming July meeting.[2]

Economic growth is another important concern: At its June meeting, the FOMC significantly cut its outlook for economic growth in 2022 to 1.7% GDP growth from its 2.8% forecast issued in March.[2] Similarly, the much-watched Atlanta Fed GDPNow estimate has continued to progressively decline since May, and now stands at a negative 1.0% for the second quarter.[3] Notably regarding this estimate is that U.S. economic activity contracted in the first quarter by 1.6%, an estimate just adjusted downward by the U.S. Commerce Department.[4] As such, if the Atlanta Fed estimate proves approximately correct, we’ve already been in recession/stagflation conditions since the beginning of the year (applying the standard recession definition of a fall in GDP in two successive quarters).

Equity Markets

The weakness in June capped off the worst first half for U.S. equities since 1970, and U.S. equity indexes entered bear market territory as the June declines brought the year-to-date (YTD) downdrafts to 20%-plus. Notably within June was the lack of differentiation across global indexes, as U.S. large caps (i.e., S&P 500 and Russell 1000), U.S. small-mid caps (Russell 2000), and International Developed (MSCI EAFE) indexes all declined between 8.3%-9.3%. While June is just one month, this fairly uniform decline is consistent with the rush to the exits which typically occurs in bear markets. Interestingly, International Emerging Markets (MSCI EM) continued to outperform in the month and YTD, by declining less, although this likely simply reflects their substantial underperformance in 2021.

Fixed Income Markets

Reflecting increasing economic risks, the performance across U.S. Fixed Income indices in June finally reflected notably differentiation between investment grade and high yield bonds – something we've cautioned about repeatedly in recent ***Market Monitor*** issues. The Bloomberg U.S. Corp. High Yield index declined 6.7% in June; in contrast the two investment grade bond indexes we track declined 1.6% and 1.8% in June (i.e., the Bloomberg U.S. Aggregate, and the S&P National AMT-Free Municipal, respectfully).

Reference(s):

1) U.S. Inflation data release by the U.S. Bureau of Labor Statistics on June 10, 2022, and article by CNBC regarding Euro Zone inflation dated July 1, 2022: https://www.bls.gov/news.release/cpi.nr0.htm and https://www.cnbc.com/2022/07/01/euro-zone-inflation-8point6percent-in-june-ecb-to-hike-rates-for-first-time-in-11-years.html

2) Federal Reserve FOMC Statement of June 15, 2022, and CNBC interview and article on its interview of Federal Reserve Bank of Cleveland President Loretta Mester on June 29, 2022: https://www.federalreserve.gov/newsevents/pressreleases/monetary20220615a.htm and https://www.cnbc.com/2022/06/29/feds-mester-backs-75-basis-point-hike-in-july-if-conditions-remain-the-same.html

3) Federal Reserve Bank of Atlanta, Center for Quantitative Economic Research, GDPNow website: https://www.atlantafed.org/cqer/research/gdpnow

4) Articles regarding U.S. economic contraction from Reuters dated June 29, 2022 and from Forbes dated July 1, 2002: https://www.reuters.com/markets/us/record-trade-deficit-weighs-us-economy-first-quarter-2022-06-29/ and https://www.forbes.com/sites/simonmoore/2022/07/01/us-recession-already-six-months-old-says-fed-model/?sh=7eae223d3628

Index Definitions:

Russell 3000 – Index comprised of 3,000 largest U.S. stocks by market capitalization.

Russell 1000 – Index comprised of 1,000 largest U.S. stocks by market capitalization.

Russell 2000 – Index comprised of 2,000 smaller U.S. stocks by market capitalization within the Russell 3000.

S&P 500 – Compilation of 500 major U.S. stocks meeting certain criteria; market capitalization and float-weighted.

MSCI All Country World – Global equity index across market capitalizations with about 2,800 constituents, representing about 85% of the free float-adjusted market capitalization across 23 developed and 27 emerging markets.

MSCI All Country World ex USA – Global equity index across market capitalizations, which excludes the U.S., with about 2,300 constituents which represents free float-adjusted market capitalization across 22 developed and 27 emerging markets.

MSCI Europe, Asia & Far East (EAFE) – International equity index across market capitalizations, which excludes North America, with about 840 constituents which represents free float-adjusted market capitalization across 21 developed markets.

MSCI Emerging Markets (EM) – International equity index across market capitalizations with about 1,400 constituents which represents free float-adjusted market capitalization across 27 emerging markets.

Bloomberg Barclays U.S. Aggregate Bond – Widely followed bond benchmark comprised of investment grade, U.S. dollar denominated, fixed rate taxable bonds including Treasuries, government-related, corporate, mortgage-backed, and agency.

S&P National AMT-Free Municipal Bond – Broad market-value weighted index comprised of larger and more liquid tax-exempt investment-grade U.S. municipal bonds.

S&P Municipal High Yield Bond – U.S. index of municipal bonds that are either not rated or rated below investment grade.

Bloomberg Barclays U.S. Corporate High Yield Bond – Index of fixed rate U.S. dollar denominated corporate bonds rated BB+ or below by Fitch and S&P.