August 3, 2022

MARKET MONITOR

Month in Review: July 2022

Index	Asset Class	2022 July	2022 YTD	2021
Equity Indexes		**Total Returns**		
Russell 3000	U.S. Equity	9.4%	(13.7)%	25.7%
S&P 500	Large Cap U.S. Equity	9.2	(12.6)	28.7
Russell 1000	Large Cap U.S. Equity	9.3	(13.6)	26.5
Russell 2000	Small Cap U.S. Equity	10.4	(15.4)	14.8
MSCI All County World	Global Equity	7.0	(14.4)	19.0
MSCI All Country World (Ex U.S.)	International Equity	3.5	(15.3)	8.3
MSCI Europe, Asia & Far East (EAFE)	International Developed Market Equity	5.0	(15.2)	11.8
MSCI Emerging Markets (EM)	International Emerging Market Equity	(0.2)	(17.6)	(2.2)
Fixed Income Indexes				
Bloomberg Barclays U.S. Aggregate Bond	U.S. Investment Grade Bond	2.4	(8.2)	(1.5)
S&P National AMT-Free Municipal Bond	U.S. Investment Grade Muni Bond	2.6	(6.2)	1.6
S&P Municipal High Yield	U.S. Muni Bonds (Below Investment Grade)	4.1	(8.1)	6.8
Bloomberg Barclays U.S. Corp. High Yield	U.S. Corp Bonds (Below Investment Grade)	5.9	(9.1)	5.3
Index Blends: Stock/Bond				
80%/20%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Barclays U.S. Agg)		6.1	(13.1)	14.7
60%/40%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Barclays U.S. Agg)		5.2	(11.8)	10.5
40%/60%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Barclays U.S. Agg)		4.3	(10.6)	6.4
20%/80%: Global Equity (MSCI All Country World) / U.S. Investment Grade Bond (Barclays U.S. Agg)		3.4	(9.3)	2.4

Data as of 7/31/2022. 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

Are we or are we not in a recession? Economists and market participants are wrestling with this question more so since Q2 2022 real GDP was reported last week to have declined at an annual rate of 0.9%, which follows a decline of 1.6% for Q1.[1] [*A question can also be postured whether we're now in Stagflation (a recession simultaneous with persistent inflation), but we'll focus in this writing on the recession question*.] Recessions typically include declines in economic output and consumer demand, and a rise in unemployment. A popular rule of thumb for defining recessions has been two consecutive quarterly declines in real GDP – while this has now been satisfied, unemployment has held at multi-decade lows. Upcoming employment reports by ADP and U.S. Bureau of Labor Statistics will be watched closely. And, keep in mind, that employment/unemployment are considered "lagging indicators" as these measures shift after changes in economic activity.

The official arbiter for defining recessions is the National Bureau of Economic Research (NBER) Business-Cycle Dating Committee. This Committee is comprised of several academic economists from esteemed universities. Historically, this group has moved methodically in its assessment of data, and often has waited several months after the fact to officially declare recessions. For example, with respect to the Great Recession, it wasn't until December 1, 2008, that the NBER declared that the U.S. had entered a recession beginning in December 2007. By then the Federal Reserve had already begun as of August 2007 to add billions to support the banking system, and Congress had already approved a $700 billion bank bailout in October 2008.

Equity Markets

As measured by the S&P 500, the U.S. equity market can be considered to have entered a “bear market” as of June 2022, based on its 20%-plus declines from its early January highs. Since mid-June, however, equities have bounced nicely, including the 9%-10% gains for U.S. equity indexes in July as detailed in the table above. Bear market rallies are not uncommon, but is this one something more? It appears optimism is being reflected among U.S. equity investors that weakening GDP does not yet indicate a recession, and that it will deflate inflation, and relatedly that additional Federal Reserve interest rate hikes may not be necessary. The caution we offer is simply that the major inflation drivers appear to be primarily global and not domestic, and supply-driven and not demand driven.

International stocks also bounced some in July, albeit to a much lesser degree than did U.S. stocks – within which Developed Markets led (MSCI EAFE) and Emerging Markets lagged (MSCI EM).

Fixed Income Markets

Most notable regarding the current sentiment within the Fixed Income markets may be the Treasury bond Yield Curve which has remained inverted for going on a full month, whereby market rates are higher for 1 and 2 year Treasuries than they are for 3 to 10 year Treasuries. Yield curve inversions have consistently foretold recessions in the past and, thereby, this prevailing condition does appear to convey a view among Fixed Income investors that is more pessimistic than that of equity investors. Also noteworthy over recent weeks has been the drift lower for the 10 year Treasury rate – from about 3.5% in mid-June to about 2.7% at the time of this writing. This appears consistent with some concerns that the U.S. economy may continue to soften and, eventually, come to prompt a potential reversal for the Federal Reserve from tightening (higher rates) to stimulus (lower rates). Reflecting this decline for market interest rates within July, all bond indexes we track gained in July, led by high yield bonds.

Reference(s):

1) U.S. Gross Domestic Product advance estimate release by the U.S. Department of Commerce, Bureau of Economic Analysis: https://www.bea.gov/data/gdp/gross-domestic-product

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Reference to market index information is included for illustrative purposes only, as it is not possible to directly invest in an index. Indexes are unmanaged, hypothetical vehicles that serve as market indicators. Index total return performance data reflects the assumptions of the reinvestment of interest and dividends but does not include the deduction of fees or transaction costs which otherwise reduce performance of an actual portfolio. The blended indexes are shown for informational purposes only and are not representative of any particular investment or plan.

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.

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