MONTHLY ECONOMIC UPDATE

INVESTMENT NEWSLETTER / AUGUST 2022

August Summary

Any hope that softer inflation and slower growth data would cause the Fed to pivot from its hiking schedule quickly evaporated in August. Chairman Powell reiterated the Fed's hawkish stance and its commitment to bring down inflation above most other factors at the Jackson Hole Economic Symposium late in the month. He went so far as to indicate that some 'pain' might be required to accomplish its goals, suggesting that the Fed's efforts could come at the expense of growth and employment. The Fed and many other central banks' reaffirmed commitments to stifling inflation, even at the expense of growth, sent shivers through risk asset markets. In a not-so-quiet August, stocks and bonds fell as yields rose and volatility was heightened.

Economic data continued to show that growth was slowing, although some indicators were better than expected. In the U.S., employment remained a strong suit of the economy yet the pace of both job and wage growth increases has leveled off. Flash composite PMIs demonstrated that activity waned, and recessions risks were still elevated. After an extensive period of strength following the pandemic, the housing market meaningfully slowed. Near-6% 30-year fixed-rate mortgages have contributed to falling new and existing home sales and lower prices. Within Europe, the war in Ukraine showed few signs of ending with continued ramifications across local economies. Perhaps most notable, Russian gas exports to Europe were extensively cut back or halted pushing prices to new highs and leading to even greater challenges approaching the winter months. Higher commodity and energy prices are already weighing on European sentiment and economic activity as evidenced by indicators and currency weakness.

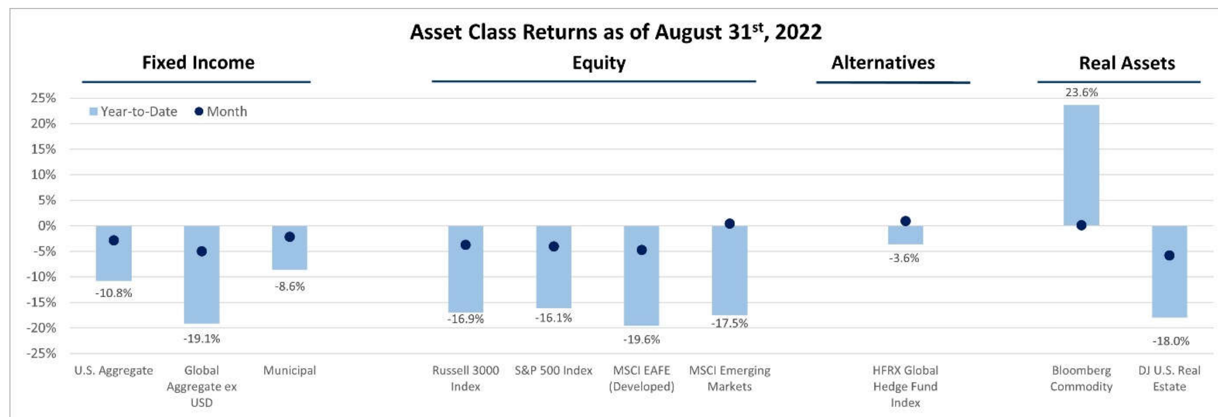
Inflation is finally showing signs of peaking, as U.S. CPI fell to 8.5% in July, from an over 40-year high in June (9.1%). While a potential peak in inflation is encouraging, core inflation continues to be well above the Fed's target levels paving the way for another sizeable rate increase at the September policy meeting. At the time of this writing, the CME futures market was predicting that another 75-basis point rate increase was more likely than not. Hawkish actions of the Fed have led to U.S. dollar strength, which is now at its highest level relative to a basket of other major world currencies in approximately 20 years. Maybe a welcome surprise to domestic vacationers in Europe, a stronger dollar has a variety of global economic implications and can contribute to greater currency instability – especially in emerging markets.

Global equity markets gave back a sizeable portion of the gains realized in July. Developed international stocks suffered the largest losses, although U.S. equities weren't much ahead. Emerging market equities fared better – bolstered by Chinese stocks. Within the U.S. market, earnings expectations declined which contributed to broad-based losses. According to FactSet, nine of the eleven S&P 500 sectors experienced declining earnings expectations for the third quarter of 2022 which also dragged down full-year earnings estimates. Only the energy and utilities sectors generated a positive result while IT and consumer discretionary securities added to already sizeable year-to-date losses. Growth shares fell more than value stocks, a trend that has been persistent throughout the year.

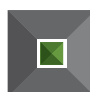
Fixed income markets also declined – doing little to buffer losses from elsewhere in the portfolio. Rates rose meaningfully across the curve, especially at the short end. At nearly 3.5%, the 2-year Treasury yield is now at its highest level in roughly 15 years. Rising rates dragged down the performance of any duration-sensitive exposure. Credit also underperformed, as spreads widened along with higher rates. Municipals declined but outperformed Treasuries, supported by favorable supply/demand dynamics. While it's been a challenging period to be a fixed income investor, higher yields should contribute to stronger performance going forward and offer a greater buffer against duration-oriented losses. Additionally, allocations to alternative asset classes have offered diversification relative to public markets and often helped to protect a subset of the portfolio.

Coming out of the summer months, uncertainty remains elevated both in the world and across markets. Risk assets may have gotten overly optimistic in July, but August served as a reset to align valuations with tighter fiscal conditions paired with slower growth. It's easy to get discouraged by negative performance in the short-term but on the positive end, central bank actions and naturally slower growth appear to be aiding in the fight against inflation. Paired with more reasonable valuations, markets might be better positioned for more compelling longer-term, forward returns. That said, volatility is likely to stay elevated in the near term and it's crucial that investment allocations are properly aligned with long-term goals and risk targets.

Market Data



Morningstar® & Hedge Fund Research, Inc.; Bond indices from Bloomberg



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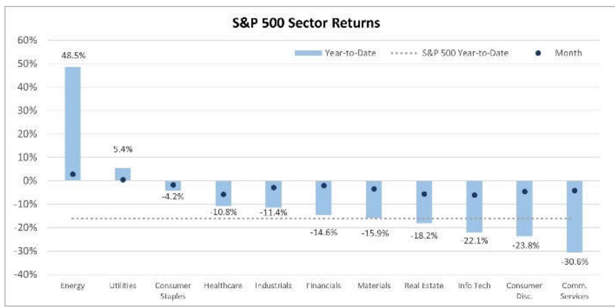

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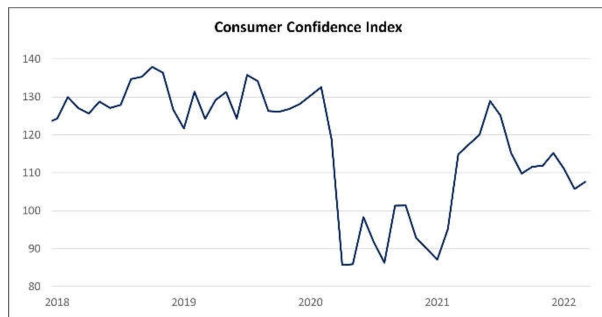
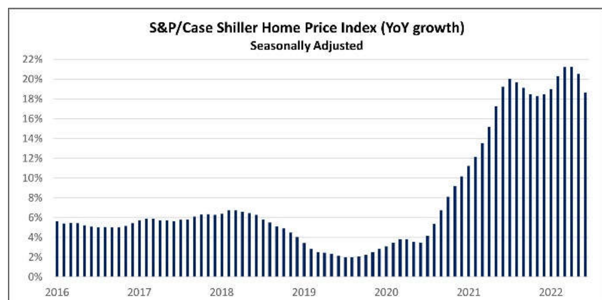


U.S. Bureau of Labor Statistics



S&P / Case Shiller

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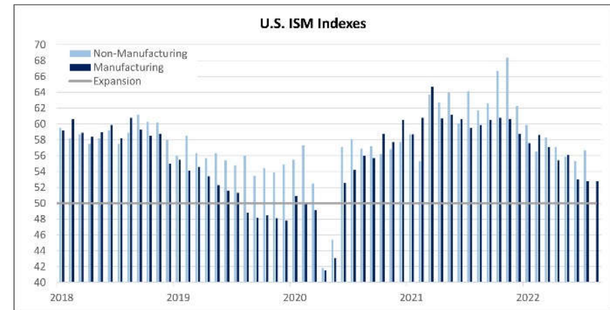
Bloomberg; U.S. indices from Russell and World indices from MSCI



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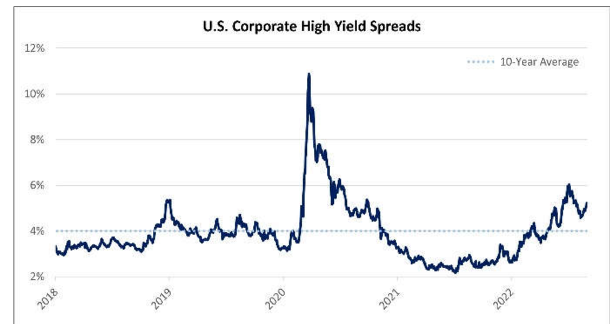

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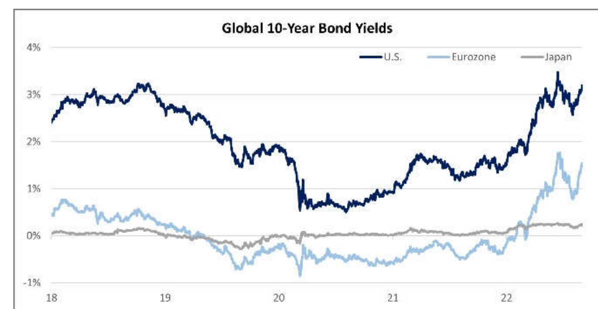

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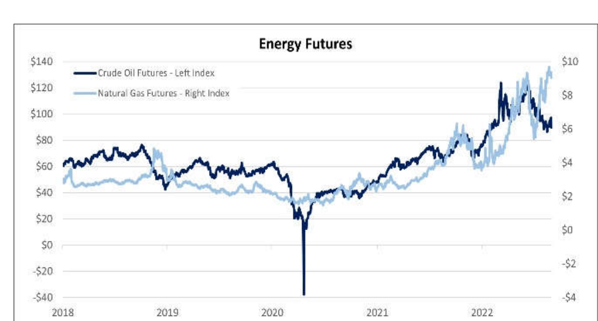

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The Russell 3000 Index is constructed to provide a comprehensive, unbiased and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected; The Russell 2000 Index measures the performance of the small cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership; The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 90% of the total market capitalization of that index. It includes approximately 1,000 of the largest securities based on a combination of their market-cap and current index membership; The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies; the S&P 500 Index is a market capitalization-weighted Index of 500 widely held stocks often used as a proxy for the stock market. It measures the movement of the largest issues. Standard and Poor's chooses the member companies for the 500 based on market size, liquidity and industry group representation. Included are the stocks of eleven different sectors; the MSCI EAFE Index (Europe, Australasia, Far East) captures large- and mid-cap representation across developed markets countries around the world excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the MSCI Emerging Markets Index captures large- and mid-cap representation across emerging markets countries across the world. The index covers approximately 85% of the free float-adjusted market capitalization in each country; The MSCI World Index captures large- and mid-cap representation across developed markets countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country; the Bloomberg Commodity Index reflects commodity futures price movements and is calculated on an excess return basis. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production, and weight-caps are applied at the commodity, sector, and group level for diversification. Roll period typically occurs from the 6th-10th business day based on the roll schedule; the Bloomberg Barclays U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency); the Bloomberg Barclays Global Aggregate Ex U.S. Index is a measure of investment-grade debt from twenty-four local currency markets. This multi-currency benchmark includes Treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Bonds issued in U.S. dollars are excluded; the Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds; the Dow Jones U.S. Real Estate Index measures the performance of real estate investment trusts (REITs) and other companies that invest directly or indirectly in U.S. real estate through development, management, or ownership, including property agencies; The Bloomberg Barclays U.S. Corporate High-Yield Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded; The HFRX Global Hedge Fund Index is comprised of funds representing the overall hedge fund universe. Constituent funds include but are not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, even driven, macro, merger arbitrage, and relative value arbitrage. The underlying strategies are asset weighted based on the distribution of assets in the hedge fund industry; The S&P Case-Shiller Home Price Index measures the value of single-family housing within the U.S. The index is a composite of single-family home price indices for the nine U.S. Census divisions. Leading economic indicators (LEI) are statistics that precede economic events. They predict the next phase of the business cycle. The OECD Composite leading indicators (CLIs), designed to anticipate turning points in economic activity relative to trend, continue to strengthen in most major economies. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The Consumer Confidence Index is a measure based on a survey administered by The Conference Board that reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectations for inflation, stock prices and interest rates. A Treasury Bill (T-Bill) is a short-term U.S. government debt obligation backed by the Treasury Department with a maturity of one year or less. The ISM manufacturing index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the manufacturing sector. The ISM Non-Manufacturing Index is a monthly indicator of U.S. economic activity based on a survey of executives covering all North American Industry Classification System's businesses in the services (or non-manufacturing) sector. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss. 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