

# MARKET PULSE

June 13, 2022

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- Equities fell today, led by declines in the energy and real estate sectors.
- The S&P 500 fell by 3.87%, the Dow Jones Industrial Average (Dow) fell 2.79%, and the Nasdaq was down 4.68%.
- Non-U.S. markets fell: The DAX (Germany) was down 2.43%, and the Nikkei (Japan) fell 3.01%.
- Treasury yields rose with the U.S. 2-year Treasury settling at 3.33% and the U.S. 10-year at 3.37%.

## CATALYSTS

- U.S. stocks entered a bear market as Friday's hotter-than-expected inflation reading continued to weigh on sentiment. The rise in prices was broad based with rents, gas, used cars, and food all higher. Consumer sentiment also hit an all-time low last week driven by higher prices. Investors are concerned that the Federal Reserve's (Fed) efforts to tame inflation through rate hikes will tip the U.S. economy into a recession. Traders of fed funds futures are pricing in 175 basis points of tightening by September – implying two 50-basis-point hikes and one 75-basis-point hike. The Federal Open Market Committee (FOMC) will issue a monetary policy decision after its two-day meeting ends this Wednesday.
- The S&P 500 is down over 13% in the quarter, and we expect volatility to remain as a number of uncertainties continue to weigh on markets. Click [here](#) for a selection of our materials that discuss the increased volatility in 2022.
- ***Inflation:*** Can the Fed achieve a “soft landing,” curbing inflation without causing a recession? The Fed is expected to announce a 50-basis-point hike on Wednesday. The latest Summary of Economic Projections (SEP) will be closely watched for revisions to inflation and economic growth.
- ***S&P 500 Earnings:*** Analysts are forecasting 4.0% earnings growth for the second quarter and 10.4% for the full year. The increase in analysts lowering estimates, and lower guidance for future earnings have brought into question the sustainability of earnings growth and company margins.
- ***Ukraine:*** Investors are wary that this is the start of a general weaponization of commodities. The European Union is accusing Russia of purposely attacking Ukrainian agriculture in a bid to worsen the global food shortage.
- ***China:*** The latest outbreak of COVID-19 cases has led to strict lockdowns along with renewed worries of an economic slowdown and possible spillover effects to the global economy, particularly via prolonged supply chain disruptions.

## INVESTMENT STRATEGY OUTLOOK

- We are in a period of intense uncertainty, with a wider range of potential outcomes. Volatility will likely be higher until there is further clarity on some of the items listed above. Clarity, or the lack thereof, on any one of these uncertainties could quickly lead to a sharp change in investor sentiment.
- We believe the U.S. economy will slow, but still grow above trend in 2022, and earnings will be positive as the lingering effects of COVID-19 restrictions ease, supply chain issues resolve, and consumer spending remains strong. But given the uncertainty in the current environment, our conviction in this view is more muted than usual. In our portfolios, we are focusing further on quality and earnings stability.
- While we have entered a bear market and may experience multiple periods of weakness during the year, we foresee the S&P 500 being higher a year from now. We don't expect interest rates to rise much higher, but above-trend economic growth and inflation will likely provide upward pressure.

Past performance does not indicate future results. The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market, and Capital Market. The Nikkei 225 consists of the shares of the 225 largest companies in Japan. DAX Index consists of the 30 most actively traded German companies on the Frankfurt Stock Exchange.

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