MARKET MINUTE

JUNE REVIEW 2022

This month's Market Minute reflects the views of our Investment Office and was composed by
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OVERVIEW

US equity markets, as gauged by the S&P 500 Index, hit a bear in June as volatility remained elevated and investors demonstrated increased skittishness. The S&P 500 Index traded down the first three weeks of the month and closed at a low for the month at 3666.77 on June 16—down 23.6% from the index peak reached on January 3rd.[1] Markets clawed back some of these losses in the final two weeks but still ended the month in bear market territory losing -8.3% during June. June's declines were not confined to US equities, as all major developed market indices lost ground in June (MSCI World Index ex US down -9.4%). Market dynamics largely reflected the sentiment that US Fed tightening, along with tightening by other major global central banks, has increased the likelihood of a US recession in coming 12 to 18 months. The VIX Index—a measure of volatility in the US equity markets—averaged over 28 in June, a full standard deviation above its long-run average of 19.6.[1] Meanwhile, the US economy continues to modestly expand and unemployment remains low, but numerous forward-looking economic indicators have rolled over, signaling slower growth ahead and headline inflation pressures show little signs of abating.

DOMESTIC EQUITY *As of June 30, 2022*

U.S. EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-6.6%	-10.8%	-14.4%	-9.1%
S&P 500	-8.3%	-16.1%	-20.0%	-10.6%
Russell 2000	-8.2%	-17.2%	-23.4%	-25.2%
Russell 1000 Growth	-7.9%	-20.9%	-28.1%	-18.8%
Russell 1000 Value	-8.7%	-12.2%	-12.9%	-6.9%

Unlike the first five months of the year that saw large relative outperformance from value-oriented stocks over growth stocks, US growth stocks actually outperformed marginally on a relative basis in June—the Russell 1000 Growth Index lost -7.9% while the Russell 1000 Value Index was down -8.7%. The relative outperformance of growth stocks over value stocks held true in both mid-cap and small cap stocks as well. However, there was little place to hide in June as investors increasingly priced in a hard landing for the US economy. US small cap stocks were down a similar amount as their large cap peers (Russell 1000 Index -8.4% and Russell 2000 Index down -8.2%) and every sector showed declines in in June, including the energy sector—the year's best performer—which declined more than -16% in June.[1]

INTERNATIONAL EQUITY *As of June 30, 2022*

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quater-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-8.6%	-13.7%	-18.4%	-19.4%
MSCI EAFE	-9.3%	-14.5%	-19.6%	-17.8%
MSCI Emerging Markets	-6.6%	-11.4%	-17.6%	-25.3%
MSCI EAFE Small Cap	-11.0%	-17.7%	-24.7%	-24.0%

Non-US equity markets provided little shelter from the storm as the US dollar rallied in the global risk-off environment that provided a further headwind to international equity returns. The MSCI EAFE Index declined -9.3% in June, while Emerging Markets outperformed on a relative basis by declining the least in June (MSCI EM Index -6.6%). Emerging Markets were buoyed in part by Chinese equities (MSCI China Index), the one bright spot in June, which rallied +6.6% as Chinese authorities began to ease COVID-19 restrictions as cases fell and previously announced stimulus measures began to show some positive impact on the real economy. Like the US, international growth stocks outperformed value-oriented stock in June, but international small cap names underperformed their large-cap peers (MSCI ACWI ex US Small Index -11.0% vs MSCI ACWI ex US Index -8.6%).

FIXED INCOME *As of June 30, 2022*

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-1.6%	-4.7%	-10.3%	-10.3%
BarCap Global Aggregate	-3.2%	-8.3%	-13.9%	-15.2%
BarCap US High Yield	-6.7%	-9.8%	-14.2%	-12.8%
JPM Emerging Market Bond	-5.5%	-10.5%	-18.8%	-19.2%
BarCap Muni	-1.6%	-2.9%	-9.0%	-8.6%

June saw the sharp rise of rates across the US yield curve as well as a flattening of the curve overall. Rates on three-month T-bills moved up +61 basis points (+0.61%) whereas yields on 10-year US Treasuries increased only +17 basis points.[1] Given the global risk-off environment of June, spreads on riskier bonds widened out during the month with investment grade spreads increasing over +25 basis points, high yield spreads blowing out over +163 basis points and EM debt spreads increasing +77 basis points.[1] The sharp move higher in high yield bonds suggests fixed income investors' nervousness of the creditworthiness of many mid and small firms as growth in the US economy is expected to slow and the risks of a possible recession have increased.

CLOSING

Recent speeches by numerous Fed officials, including Fed Chairman Jerome Powell, make it clear that the Fed sees fighting inflation as the priority and it is willing to risk a recession to deliver inflation rates consistent with its mandate for price stability—ergo sub 3% inflation rates. The markets are likely to grapple throughout this summer with the prospect of how high the Fed must hike rates to achieve its goals—current consensus thinking is a Fed Funds Rate projected to top-out between 3.75% and 4.0% in early 2023—and can the US economy absorb such rate hikes with (hard landing) or without (soft landing) going into a recession. While it is clear the US economy will slow in the face of these rate hikes from its current pace in H2-2022, it is yet unclear the impact on US corporate earnings and whether any soft patch in real GDP growth will be shallow and fleeting or deeper and longer-lasting. This environment—along with traditionally lighter trading volumes in July and August—are a recipe for continued volatility but also more of a range-bound market until more clarity on these two issues—corporate earnings and the likelihood of a hard landing—are ultimately clearer. For the long-run investor, rebalancing and patience are likely the best course of action.

SOURCES

1 Bloomberg 6/30/2022