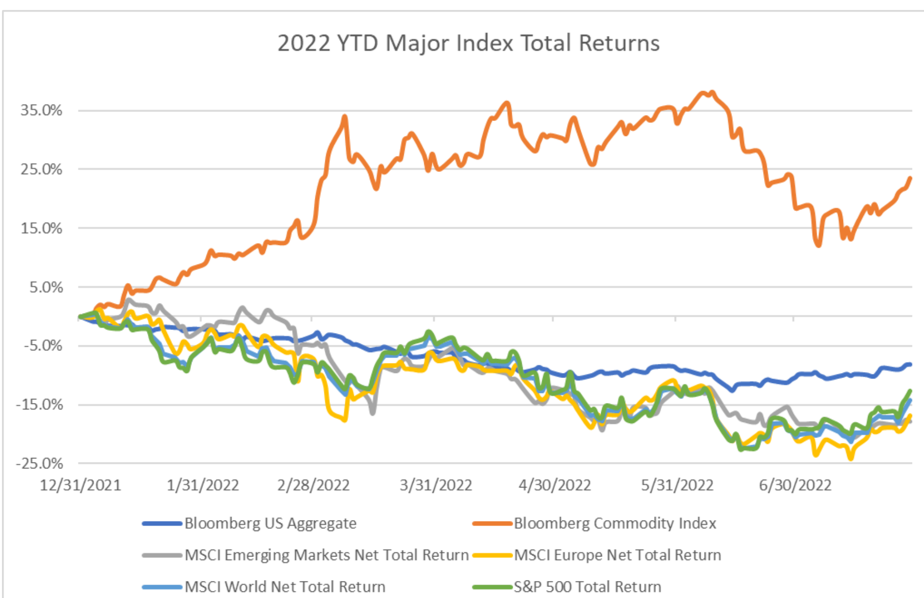
JULY 2022 MARKET REVIEW

Market Recap: July was an exceptionally strong month for both stocks and bonds. Global equities increased almost 8%, while US bonds increased almost 2.5%, as measured by the MSCI World and the Bloomberg US Aggregate indices, respectively. Equities were led higher by US companies specifically within the Consumer Discretionary and Technology sectors, a stark contrast to the first half of the year where companies in those sectors struggled. Fixed income securities increased in value as interest rates continued to decline from the mid-June highs, and credit spreads contracted. The 10-year US treasury ended the month at 2.65%, having peaked at 3.5% in mid-June. On a year-to-date basis, global equities have fallen 14%, while bonds have fallen 8%.

The storylines in July have centered around the second quarter corporate earnings season, and the US Federal Reserve meeting that wrapped up last week. About 50% of all S&P 500 companies have reported so far, with both revenue and earnings figures coming in better than expected, at an aggregate level. Unsurprisingly, Energy companies have exhibited the largest level of earnings growth (over 300% relative to the second quarter of 2021), while Financials and Consumer Discretionary have seen their earnings fall more than other sectors. Overall, earnings are expected to grow mid-single digits this quarter; a positive sign. On the monetary policy front, the Fed yet again raised the Fed Funds rate by 75 basis points to a range of 2.25% - 2.5%; the fourth rate hike of 2022. The Fed Funds rate is now at what the Fed considers to be a neutral level, which is neither economically stimulative, nor restrictive. Equity markets shot higher during Chair Powell's news conference as investors perceived the tone of the central bank to be dovish. Powell reiterated many times that they will continue to be data dependent, and that there are going to be many data points to analyze between now and the committee's next meeting, which is scheduled for the third week of September.

How does this impact our perspective? July is another reminder that the stock market and the economy are not synonymous. The ups and downs of the stock market are obviously influenced by the strength or weakness in the broader economy, but the timing of stock market movements does not coincide perfectly with an improving or deteriorating economy. The reason for this disparity is sometimes difficult to understand, but boils down to the fact that equity markets are constantly evaluating the *future* prospects for a collection of public companies, while much of what is publicized on the evening news is *historical* data. The global economy is adjusting to an environment of higher prices that has not occurred in some time. There are obviously data points that suggest we are in the midst of a recession (real GDP growth), however, on the other hand, there are data points that suggest we are far from a recession (employment, for example). Because of these discrepancies, a broader set of factors should be evaluated to determine whether recession risks are imminent, other than solely focusing on inflation adjusted GDP growth. While economic downturns can be self-fulfilling, we think that markets will pay closer attention to the strength of corporations, through earnings growth, and to the impending deceleration in inflation readings.



Data Source: Y Charts

Encore Investment Advisors, LLC is a Registered Investment Advisor