Weekly Investment Insights

June 21, 2022

Key Takeaways:

- Small business optimism at 48-year low.
- Retail sales negative as inflation weighs on spending.
- FOMC raises interest rates by 75 bps.
- U.S. equities post worst week since March 2020.
- Yields volatile on recession fears and higher rates.
- Commodities see worst week since Feb. 2020.

Weekly Economic Recap –

Fed Raises Rates the Most since 1994

Wholesale producer prices, as tracked by the Producer Price Index, increased 0.8% MoM (10.8% on a year over year basis), and remain near historic highs. The gain was led by energy which surged 5% on the month.

The NFIB Small Business Optimism Index fell in May as expectations for the future reached a 48-year low and inflation concerns reached the highest reading since 4Q80. Small businesses are still struggling to find workers as 47% of respondents reported having job openings they could not fill.

Headline retail sales surprisingly declined in May. A decline in many major discretionary sectors overshadowed the monthly jump in gas station sales. The areas that saw the largest decline were in motor vehicles, electronics, internet sales and furniture.

The FOMC announced a 75-bps rate hike, pushing the Fed Funds Rate to 1.50% - 1.75%, marking the largest rate hike since 1994. When they released their economic projections, they increased inflation expectations (PCE) for this year from 4.3% to 5.2%, while the projected Fed Funds Rate pushed higher to a median rate of 3.4% by year-end 2022 (from 1.9% at the March meeting). Fed Chairman Jerome Powell cited the committee's policy will continue to adapt and the 75-bps hike was "an unusually large one that is not expected to be common."

The Leading Indicators Index fell in May as consumer expectations and average weekly claims of unemployment both weighed on the headline number.

Weekly Market Recap –

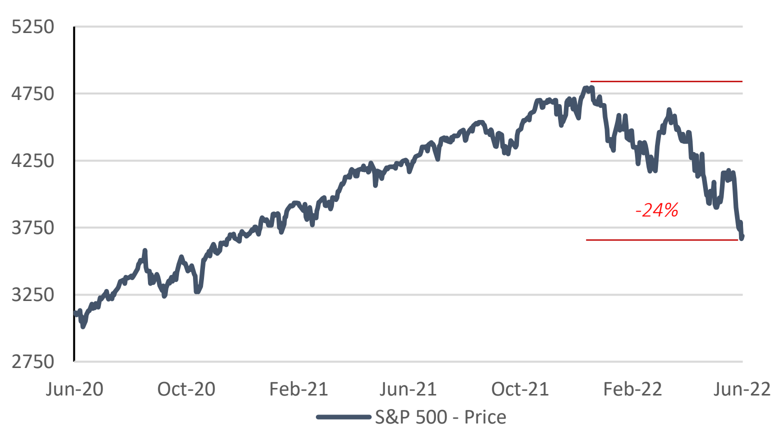
Worst Week Since Height of the Covid Pandemic

Equities: The MSCI AC World Index posted its worst weekly decline since the pandemic (the week ending March 20, 2020) as investors feared more aggressive central bank actions despite a weakening economy. The weakness was broad based with the developed markets leading the world index lower. Within the U.S., the losses were concentrated in the small and midcap space. At the large cap level, growth modestly outperformed value as energy stocks fell dramatically on recession fears. The S&P 500 energy sector declined the most since March 2020.

Fixed Income: The Bloomberg Barclays Aggregate Index fell for the third consecutive week but fell less than equities as central banks insinuated more aggressive rate hikes to come. Credit, specifically high yield, fell the most. The extra yield investors demand to own high yield debt (i.e., spread) rose to the highest level since October 2020.

Commodities/FX: The Bloomberg Commodity Index fell on significant weakness in crude oil, which fell the most since April. Corn posted its second consecutive week of gains and is just off its all time high price, set back in August 2012.

S&P 500 Crosses into Bear Market Territory



Megan Horneman | Chief Investment Officer
mhorneman@verdence.com

Past performance is not indicative of future returns

Key Takeaways:

- Bear market is officially here.
- Fed opens the door for the bear with largest single rate hike since 1994.
- Volatility is likely to remain as inflation and economic environment is unclear.
- History suggests bear markets present opportunities.
- Remain patient and focus on long term investment objectives.

The Bear Has Been Escorted in by the Fed

Last week the S&P 500 officially entered bear market territory when it fell 24% from its January 3rd high. This is the first bear market since the 34% decline in February-March 2020. Disappointing economic and inflation data and the largest single rate hike (75 bps) by the Federal Reserve since 1994 were the catalysts to officially push the market into bear market territory. While we cannot pinpoint the bottom in this bear market, we are confident that volatility is likely to stick around in the near term. The inflation environment is highly uncertain and there are signs that the Fed's goal of cooling the economy is materializing. Consumer spending is weak, confidence is at a record low, housing data is disastrous and even manufacturing data is softening. As a result, according to Bloomberg, the odds of a recession over the next 12 months have increased to 30% (from 15% to start the year).

Recessions and bear markets are a normal part of all economic and investment cycles. Bear markets always feel bad while you are in them. However, history suggests that if you exercise patience and focus on your long-term objectives that often adding to equities when the market drops 20% have yielded attractive returns over the long term. As can be seen in the table below, we analyzed all the bear markets since 1946. If an investor bought the S&P 500 when it crossed into bear market territory (at the 20% drop), the average return one year later would have been 19% and the S&P 500 was positive 73% of the occasions. In the three- and five-year time frame, returns would be 37% and 51% and the S&P 500 was negative only on one occasion.

The Bottom Line:

Bear markets are difficult to digest and painful while experiencing them. We are monitoring the economic environment and realize that the risk of a recession is high. However, we are not selling into this downturn. Instead, we are looking to put dry powder to work in areas of the market that may have already priced in the pessimism. Small and midcap stocks have fallen 30-40% and valuations look attractive, especially when focusing on the long term.

Peak	Hit Bear Market	Trough	Length of Bear Market (in months)	Peak to Trough Drop	1YR	3YR	5YR	10YR
5/29/1946	9/9/1946	6/13/1949	37	-29.6%	-0.8%	2.6%	57.4%	216.9%
8/2/1956	10/21/1957	10/22/1957	15	-21.6%	31.0%	36.2%	40.4%	142.6%
12/12/1961	5/28/1962	6/26/1962	7	-28.0%	26.1%	59.3%	63.0%	98.8%
2/9/1966	8/29/1966	10/7/1966	8	-22.2%	24.6%	28.1%	33.5%	37.0%
11/29/1968	1/29/1970	5/26/1970	18	-36.1%	11.9%	35.4%	-9.8%	33.1%
1/11/1973	11/27/1973	10/3/1974	21	-48.2%	-26.9%	7.0%	0.3%	74.0%
11/28/1980	2/22/1982	8/12/1982	21	-27.1%	30.4%	60.7%	153.1%	269.5%
8/25/1987	10/19/1987	12/4/1987	3	-33.5%	23.2%	39.0%	84.6%	325.0%
7/16/1990	10/11/1990	10/11/1990	3	-19.9%	29.1%	56.0%	96.1%	361.9%
7/17/1998	8/31/1998	8/31/1998	2	-19.3%	37.9%	18.4%	7.2%	33.5%
3/24/2000	3/12/2001	10/9/2002	31	-49.1%	-1.2%	-5.0%	8.8%	9.8%
10/9/2007	7/9/2008	3/9/2009	17	-56.8%	-29.1%	6.0%	32.7%	123.7%
5/2/2011	10/3/2011	10/3/2011	5	-19.2%	32.0%	79.0%	96.6%	291.2%
9/20/2018	12/24/2018	12/24/2018	3	-19.8%	37.1%	103.8%		
2/19/2020	3/12/2020	3/23/2020	1	-33.9%	59.0%			
1/3/2022	6/14/2022	?						
		Average	**13**	**-31.0%**	**18.9%**	**37.6%**	**51.1%**	**155.1%**
		Median	**8**	**-28.0%**	**26.1%**	**35.8%**	**40.4%**	**123.7%**
				% Time Positive	**73.3%**	**92.9%**	**92.3%**	**100.0%**

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com
Past performance is not indicative of future returns

Weekly Investment Insights

June 21, 2022

VERDENCE CAPITAL ADVISORS

Global Equities Fall on Fed and Recession Fears

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	29,889	-4.7%	-8.2%	-12.9%	-9.9%	-16.9%
S&P 500	3,675	-5.7%	-10.0%	-16.4%	-11.7%	-22.3%
Russell 1000 Growth	2,134	-5.1%	-9.9%	-20.0%	-19.1%	-30.3%
Russell 1000 Value	1,390	-6.6%	-10.0%	-13.7%	-8.5%	-15.2%
Russell Midcap	2,523	-7.4%	-10.8%	-17.1%	-17.7%	-23.5%
Russell 2000	1,666	-7.4%	-9.4%	-19.1%	-26.4%	-25.4%
Nasdaq	10,798	-4.8%	-9.8%	-20.5%	-23.2%	-30.7%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	586	-1.9%	-5.6%	-15.9%	-15.6%	-21.7%
MSCI EAFE (USD)	1,842	-1.9%	-6.3%	-13.5%	-18.1%	-19.8%
MSCI Europe ex UK (USD)	1,979	-0.2%	-5.4%	-14.4%	-20.6%	-23.6%
MSCI Japan (USD)	2,979	-5.2%	-8.2%	-15.0%	-22.1%	-21.8%
MSCI UK (USD)	1,050	-0.2%	-4.9%	-8.6%	-3.5%	-8.7%
MSCI EM (USD)	1,000	-1.5%	-3.0%	-10.2%	-24.7%	-17.9%
MSCI Asia ex Japan (USD)	649	-1.3%	-1.8%	-9.2%	-25.0%	-17.1%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	3.9%	-0.9%	-1.6%	-6.4%	-11.1%	-11.5%
U.S. Govt/Credit	3.9%	-0.8%	-1.3%	-6.4%	-11.5%	-12.0%
U.S. 10 Year Treasury	3.2%	-0.6%	-1.8%	-8.1%	-12.4%	-13.5%
U.S. TIPS (1-10YR)	3.6%	-1.7%	-1.6%	-5.0%	-1.3%	-5.0%
U.S. High Yield	8.5%	-2.9%	-3.0%	-8.3%	-11.2%	-13.1%
EM Bonds (USD)	7.1%	-2.0%	-2.2%	-7.3%	-17.4%	-16.6%
Municipal Bonds	3.4%	-2.0%	0.4%	-5.4%	-9.7%	-10.1%

Commodites	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	272	-6.37%	-3.6%	2.2%	41.1%	28.2%
Crude Oil (USD/bbl)	$109.6	-9.2%	-2.5%	6.4%	54.2%	42.3%
Gold ($/oz)	$1,838.7	1.4%	-0.7%	-5.3%	2.8%	0.3%
Copper	$401.4	-4.1%	-5.7%	-14.1%	-3.5%	-9.6%
Wheat	$1,046.8	-4.8%	-12.0%	-1.9%	53.5%	34.8%
U.S. Dollar	105	-0.7%	1.1%	5.9%	13.5%	9.0%
VIX Index	31.0	12.2%	19.3%	21.3%	75.4%	80.8%

Disclaimer:

This material was prepared by Verdence Capital Advisors, LLC (“VCA”). VCA believes the information and data in this document were obtained from sources considered reliable and correct and cannot guarantee either their accuracy or completeness. VCA has not independently verified third-party sourced information and data. Any projections, outlooks or assumptions should not be construed to be indicative of the actual events which will occur. These projections, market outlooks or estimates are subject to change without notice. This material is being provided for informational purposes only and is not intended to provide, and should not be relied upon for, investment, accounting, legal, or tax advice. Past performance is not a guarantee of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product or any non-investment related content, made reference to directly or indirectly in these materials will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. You should not assume that any discussion or information contained in this report serves as the receipt of, or as a substitute for, personalized investment advice from VCA. Alternative investments are designed only for sophisticated investors who are able to bear the risk of the loss of their entire investment. Investing in alternative investments should be viewed as illiquid and generally not readily marketable or transferable. Investors should be prepared to bear the financial risks of investing in an alternative investment for an indefinite period of time. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. All indexes are unmanaged, and you cannot invest directly in an index. Index returns do not include fees or expenses.