Weekly Investment Insights

June 27, 2022

Key Takeaways:

- Existing home sales slip but new home sales rise.
- Consumer confidence hits fresh record low.
- Manufacturing data shows supply chain optimism.
- U.S. performance leads global equities higher.
- Bonds rally as economic growth fears emerge.
- Commodities sell off deepens.

Weekly Economic Recap –

Consumer Confidence Plummets

Existing home sales declined in May to the lowest level since June 2020 as a lack of supply and higher interest rates hampered demand. The decline did help the months' supply of homes rise for the fourth consecutive month, but it remains near historic lows. The median price of an existing home rose to a fresh new record high ($414,200).

Initial jobless claims fell narrowly last week but came in slightly above consensus expectations (229k vs. 226k). Continuing claims increased slightly from last week but still came in better than expected.

The first reading on the S&P Global U.S. Manufacturing Index showed the steepest monthly drop since the pandemic in June. The new orders component dropped into contraction territory (a reading below 50) and to the lowest level since May 2020. The backlog of orders also fell into contraction territory which is a positive sign for the supply chain. That measure fell to the lowest level since June 2020.

The final reading of the University of Michigan Consumer Sentiment survey showed confidence fell more than expected for June and to a record low. However, both inflation expectations (short term = 1 year and long term = 5-10 year) also fell.

New home sales increased more than expected in May despite soaring home prices and the 30-year fixed mortgage rate near 6%. Densely populated areas (i.e., West and South) saw the most growth, but sales did slip in the Midwest and Northeast.

Weekly Market Recap –

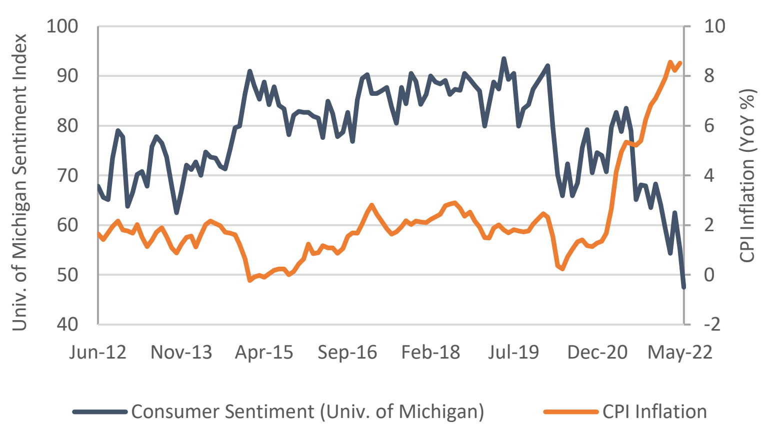
U.S. Equities Outperform on Tech/Growth Strength

Equities: The MSCI AC World Index posted a gain for the first time in four weeks led by a strong rally in U.S. equities. All major U.S. indices were higher for the week, but it was led by the tech-heavy Nasdaq and large cap growth sectors. Small and midcap growth also saw a sharp rebound. The Russell 2500 Growth Index outperformed the Russell 2500 Value Index by more than 400 bps for the week. Within the S&P 500, the S&P 500 energy sector was the only sector to decline for the week.

Fixed Income: The Bloomberg Barclays Aggregate Index rallied for the first time in four weeks as economic growth fears overshadowed the expected aggressive tightening cycle. Municipals posted their best gain since March while high yield outperformed investment grade credit.

Commodities/FX: The Bloomberg Commodity Index fell for the second consecutive week, officially crossing into correction territory (a loss of 10%+ from its most recent peak). Grains led the weakness on better crop production in the U.S. and other major exporters.

Consumer Confidence Falls to Record Low



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Past performance is not indicative of future returns

Key Takeaways:

- Commodities in contraction territory.
- Grains prices deeply in bear market and may ease food pricing pressures.
- Energy prices see temporary reprieve.
- Highly cyclical (e.g., metals, lumber) commodities dropping.
- Too early to say commodities have peaked; headwinds remain.

A Positive Take on an Unnoticed Bear Market

While investors have been focused on the equity bear market, there is another bear market occurring that may not be gaining attention. The Bloomberg Commodity Index is in contraction territory (-10%+ from recent peak) and has not officially entered a bear market (down 20%+) but there are many commodities in a bear market. This should be a bear market we celebrate! Especially since we have also seen a decline in inflation expectations. The inflation breakeven rate on five-year Treasury Inflation Protected Securities has fallen sharply (down 90 bps to 2.84%). In this weekly we will highlight the commodities that are falling and what it means for the economy.

- **A bear market in select grains may help food prices:** The Bloomberg Grains Index is in contraction territory (-16% from its May 2022 high). However, wheat (-36%) is deeply in a bear market as optimism about the outlook for wheat crop in the U.S. improved, fund selling has kicked in and global recession fears are rising. Soybean oil, the most used oil in the U.S., is down 25%. Corn (-9%) and soybeans (-10%) are also down as the crop outlook improves outside the U.S. as well.
- **Energy prices drop, at least temporarily.** The Bloomberg Energy Index is almost in a bear market but select energy commodities are in a bear market. Natural gas, whose price is affected by mild temperatures and lower demand, is down 34% since the June peak. Crude oil has slipped on global growth concerns. While still painfully high, gasoline prices have modestly retreated (-$0.12).
- **Metals in a bear market on slower global growth.** The Bloomberg Industrial Metals Index is firmly in a bear market (-34%). Metals are highly cyclical and are declining on recession fears. Copper, which is used in wiring, telecom cables and electronics is down 24% from its March peak. Aluminum is down 36% and iron ore is down 17%.
- **Other noteworthy declines in commodities.** Aside from the most widely followed commodities, there are other commodities that have been disrupted by the supply chain and pandemic related ramifications that are dropping sharply. Lumber prices are down ~60%, good news for homebuilders. In addition, freight costs, as measured by the Freightos Global Index (the cost to ship a 40-foot container of freight) are down 36% from the September 2021 peak.

The Bottom Line:

While many commodities have fallen sharply, we acknowledge that the absolute cost is still extraordinarily high and will likely weigh on consumer confidence and spending power. In addition, commodity prices are volatile and highly reliant on supply dynamics which for some commodities remain a concern. Recently, Russia attacked a Ukraine agriculture hub (and we have not seen the full impact yet), the Nord Stream pipeline (takes natural gas from Russia to Europe) is shutting down temporarily next month for maintenance and OPEC+ is set to announce their August production this week. What is positive about the recent drop is that it shows speculation can quickly evaporate from the commodity markets and drive prices sharply lower. In addition, the Fed's plans for aggressive rate hikes are fueling a fear of a slowdown in growth. If economic growth continues to weaken that should also help to limit the upside across those highly cyclical commodities.

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Global Equities Rebound Sharply

U.S. Equities		Current	1WK	1MO	3MO	1YR	YTD
	Dow Jones Industrial Average	31,501	5.4%	-1.1%	-8.8%	-6.1%	-12.4%
	S&P 500	3,912	6.5%	-0.6%	-13.1%	-7.0%	-17.3%
	Russell 1000 Growth	2,303	7.9%	3.1%	-17.0%	-14.1%	-24.8%
	Russell 1000 Value	1,464	5.3%	-3.5%	-10.0%	-4.3%	-10.7%
	Russell Midcap	2,674	6.0%	-1.9%	-13.7%	-14.2%	-18.9%
	Russell 2000	1,766	6.0%	0.2%	-14.6%	-23.5%	-20.9%
	Nasdaq	11,608	7.5%	3.1%	-18.0%	-18.6%	-25.5%

International Equities		Current	1WK	1MO	3MO	1YR	YTD
	MSCI AC World (USD)	613	4.8%	-1.9%	-13.1%	-13.4%	-18.1%
	MSCI EAFE (USD)	1,874	2.8%	-6.0%	-12.3%	-17.5%	-18.4%
	MSCI Europe ex UK (USD)	2,009	3.2%	-5.7%	-12.0%	-20.8%	-22.4%
	MSCI Japan (USD)	3,047	1.7%	-7.4%	-14.6%	-19.9%	-20.1%
	MSCI UK (USD)	1,065	3.7%	-5.1%	-8.4%	-3.9%	-7.4%
	MSCI EM (USD)	1,011	0.8%	-0.2%	-10.3%	-24.2%	-17.0%
	MSCI Asia ex Japan (USD)	659	1.5%	2.1%	-8.3%	-23.8%	-15.7%

Fixed Income		Current Yield	1WK	1MO	3MO	1YR	YTD
	U.S. Aggregate	3.8%	0.6%	-2.3%	-5.1%	-10.7%	-10.9%
	U.S. Govt/Credit	3.8%	0.5%	-2.2%	-5.2%	-11.1%	-11.5%
	U.S. 10 Year Treasury	3.1%	0.9%	-2.9%	-5.9%	-11.9%	-12.7%
	U.S. TIPS (1-10YR)	3.4%	0.6%	-1.4%	-3.9%	-1.0%	-4.5%
	U.S. High Yield	8.4%	0.6%	-2.1%	-7.5%	-10.9%	-12.6%
	EM Bonds (USD)	7.0%	0.2%	-2.8%	-6.8%	-17.3%	-16.5%
	Municipal Bonds	3.3%	0.8%	0.0%	-3.6%	-8.8%	-9.3%

Commodites		Current	1WK	1MO	3MO	1YR	YTD
	Bloomberg Commodity Index	260	-4.28%	-7.9%	-5.8%	31.8%	22.7%
	Crude Oil (USD/bbl)	$107.9	-0.1%	-2.3%	-4.3%	49.0%	42.2%
	Gold ($/oz)	$1,826.9	-0.6%	-1.4%	-6.6%	2.6%	0.0%
	Copper	$374.1	-6.5%	-12.8%	-19.9%	-12.5%	-15.9%
	Wheat	$936.5	-10.3%	-19.5%	-12.2%	43.5%	22.5%
	U.S. Dollar	104	-0.7%	2.2%	5.2%	13.2%	8.6%
	VIX Index	27.2	-12.5%	-7.5%	25.7%	70.5%	58.1%

Disclaimer:

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