HOPE FLOATS: JULY 2022 MARKETS

AUGUST 2022

Markets staged a comeback in July as U.S. equities posted their best monthly gains since November 2020.[1] The S&P 500 equity index rose 9.11%, the tech-heavy Nasdaq finished up 12.4%, while the Dow posted gains of 6.7%.[2] Gains were fueled by better-than-expected financial results from America's biggest companies, as well as bets that the Fed might dial back monetary policy tightening sooner than expected.[3]

While inflation numbers continued to run hot for June, we are starting to see prices come down.[4] The S&P GSCI agriculture index, gasoline costs, and used car prices are all falling, which could provide some relief.[5] Goods in demand since the pandemic, like appliances and furniture, should see less inflation, or even price declines, in the coming months.[6]

Index Returns
(July 2022 and Year To Date)

Bloomberg Barclays Aggregate Bond Index US investment grade bonds	1.83% for July*	-7.71% for the year*
S&P 500 Index Large US Equities	9.11% for July*	-13.34% for the year*
MSCI World Index Large/mid developed world equities (ex-US, CAN)	7.97% for July*	-13.94% for the year*
MSCI Europe Index Large/mid developed european equities	4.96% for July*	-16.42% for the year*
MSCI Emerging Markets Index Global emerging market equities	-0.16% for July*	-17.61% for the year*

* As of July 31, 2022

Sources:

BBAB https://www.bloomberg.com/quote/LBUSTRUU:IND

S&P 500
https://www.morningstar.com/indexes/spi/spx/performance

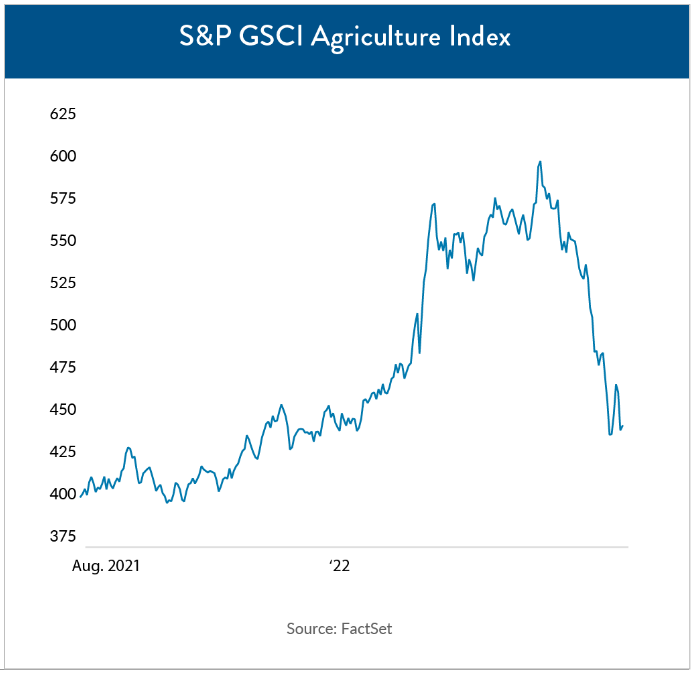
MSCI
https://www.msci.com/end-of-day-data-search

QUICK TAKE

Strong earnings results and a sentiment that the Fed might revert to cutting rates in 2023 buoyed stock markets higher. Bond prices rallied on slowing economic data. The path ahead isn't entirely clear as the Fed navigates a challenging policy environment. We could see more volatility in the coming months.

Reaching Neutral Rates

Once again, Federal Reserve policy took center stage as policymakers raised the benchmark U.S. interest rate 0.75% (75 basis points) to a range of 2.25% to 2.5.[7]



Fed Chair Jerome Powell noted that "ongoing increases" would be appropriate depending on how the economy performs, though he stopped short of providing guidance on the magnitude of upcoming hikes.[8] However, Powell's statement also said, "As the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases while we assess how our cumulative policy adjustments are affecting the economy and inflation."

In unscripted remarks, Powell noted that interest rates have reached a "neutral level." Neutral rates refer to policy rates that are neither accommodative nor restrictive to the economy. According to former chief executive of Pimco and Bloomberg columnist Mohammad El-Erian, this suggests that the Fed believes it has already done the bulk of what is needed to tighten monetary policy to deal with high inflation.[9]

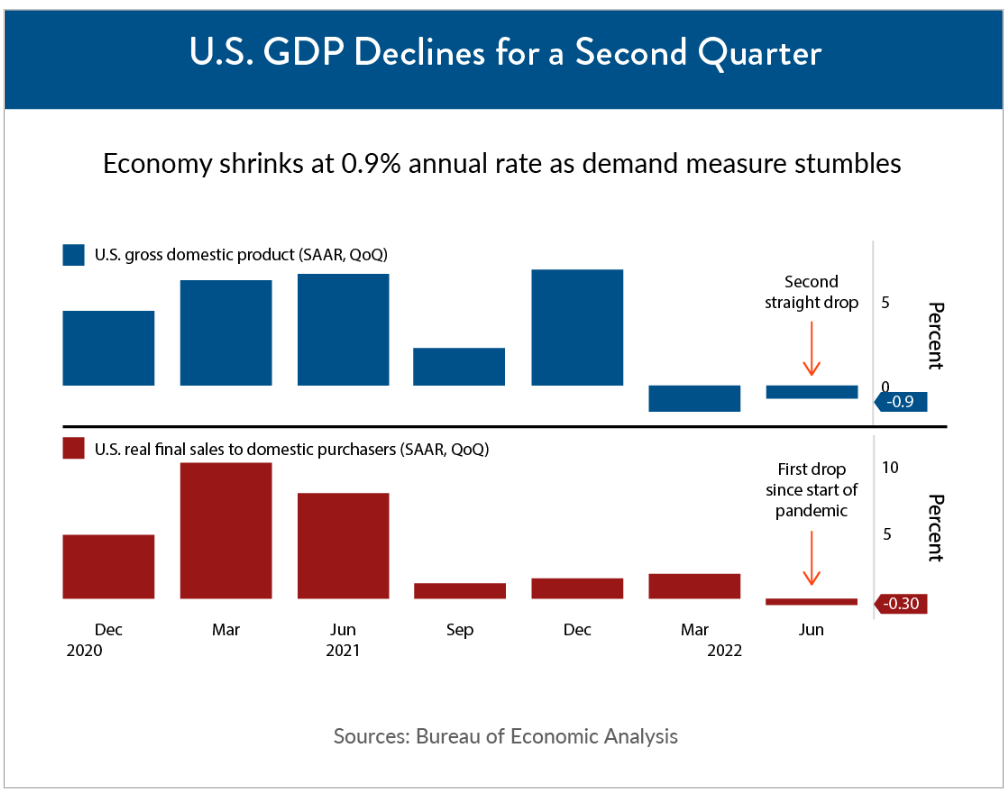
Markets cheered the remarks, and the benchmark S&P 500 gained 2.6% on the day of the FOMC meeting.[10]

Economic Activity

Rate projections suggest that the Fed may start cutting rates again in 2023.[11] What would trigger rate cuts after a year of aggressive hikes? The main cause would be a recession and slower growth, and the Treasury market is already flashing warning signs of possible risks ahead.[12]

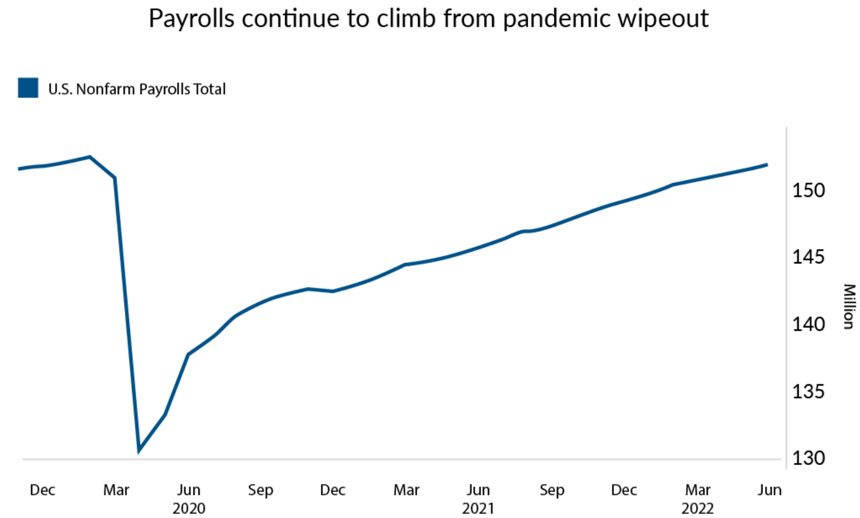
Chair Powell was questioned about whether the U.S. economy was either in or on the cusp of a recession—an idea he rejected because U.S. firms continue to hire over 350,000 more workers each month.[13]

The common short-hand definition of recession is two consecutive quarters of negative economic growth. Data showed U.S. gross domestic product (a measure of economic activity) contracting for the second consecutive quarter between April and June.[14]



However, the actual determination comes from the National Bureau of Economic Research (NBER), which defines a recession as a "significant decline in economic activity that is spread across the economy and that lasts more than a few months." Other criteria used by a dedicated NBER panel include the depth, diffusion and duration of the decline.[15]

U.S. Job Growth



Sources: Bureau of Labor Statistics, Bloomberg

According to the National Economic Council, the U.S. added more than a million jobs in the second quarter, and we've never had a U.S. recession where the economy didn't lose jobs.[16]

Whether or not we are in a recession, markets barely reacted to the GDP news.[17] As Goldman Sachs notes, "credible and transparent policy measures have lessened the risk of a severe Fed-induced downturn, and any recession due to Fed overtightening will likely be short and shallow."[18] This month, markets were able to focus on the positive, especially after strong tech earnings.[19]

Heading Into Fall

We've previously discussed the tightrope act the Fed needs to walk with rate hikes while balancing price and financial stability. Unexpected inflationary shocks like the ongoing Russia-Ukraine war and Chinese Covid lockdowns continue to muddle the picture.

According to Blackrock, policy trade-offs are much more difficult to assess now, meaning central banks will likely veer between favoring economic activity over inflation and vice versa.[20] The end result could be higher inflation and shorter economic cycles.[21]

The dilemma for markets is that equities suffer if rate hikes trigger a slowdown, but if policymakers tolerate higher inflation, bond prices fall. Either way, Blackrock sees higher risks baked into market prices across the board.[22]

It is our view that maintaining discipline and a level head will be critical to navigating this period—just as we believe they've been critical for the past couple of unprecedented years. If you have any questions about your strategy or market news, please don't hesitate to reach out to us. We're always happy to discuss!

The information expressed herein are those of JSF Financial, LLC, it does not necessarily reflect the views of NewEdge Securities, Inc. Neither JSF Financial LLC nor NewEdge Securities, Inc. gives tax or legal advice. All opinions are subject to change without notice. Neither the information provided, nor any opinion expressed constitutes a solicitation or recommendation for the purchase, sale or holding of any security. Investing involves risk, including possible loss of principal. Indexes are unmanaged and cannot be invested in directly.

Historical data shown represents past performance and does not guarantee comparable future results. The information and statistical data contained herein were obtained from sources believed to be reliable but in no way are guaranteed by JSF Financial, LLC or NewEdge Securities, Inc. as to accuracy or completeness. The information provided is not intended to be a complete analysis of every material fact respecting any strategy. The examples presented do not take into consideration commissions, tax implications, or other transactions costs, which may significantly affect the economic consequences of a given strategy. Diversification does not ensure a profit or guarantee against loss. Carefully consider the investment objectives, risks, charges and expenses of the trades referenced in this material before investing.

Asset Allocation and Diversification do not guarantee a profit or protect against a loss.

The Bloomberg Barclays U.S. Aggregate Bond Index measures the investment-grade U.S. dollar-denominated, fixed-rate taxable bond market and includes Treasury securities, government-related and corporate securities, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities.

The S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market.

SPX, or the Standard & Poor's 500 Index, is a stock index that is comprised of the 500 largest U.S. publicly traded companies by market capitalization, or the stock price multiplied by the number of shares it has outstanding.

The Nasdaq Composite is a market-capitalization-weighted index consisting of all Nasdaq Stock Exchange listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds or deben¬ture securities.

The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across 23 developed markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI Europe Index captures large and mid-cap representation across 15 developed markets countries in Europe and covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Emerging Markets Index captures large and mid-cap representation across 26 emerging markets countries and covers approximately 85% of the free float-adjusted market capitalization in each country.

SOURCES

By clicking on these links, you will leave our server, as they are located on another server. We have not independently verified the information available through this link. The link is provided to you as a matter of interest. Please click on the links below to leave and proceed to the selected site.

1. https://www.nytimes.com/2022/07/29/business/stock-market-july.html
2. https://www.cnbc.com/2022/07/28/stock-market-news-updates-open-to-close-future.html
3. https://www.nytimes.com/2022/07/29/business/stock-market-july.html
4. https://www.wsj.com/articles/inflation-may-have-peaked-but-the-fed-wont-back-off-11657726154
5. https://www.wsj.com/articles/inflation-may-have-peaked-but-the-fed-wont-back-off-11657726154
6. https://www.wsj.com/articles/inflation-may-have-peaked-but-the-fed-wont-back-off-11657726154
7. https://www.bloomberg.com/news/articles/2022-07-27/powell-signals-more-hikes-coming-leaves-out-details-this-time
8. https://www.bloomberg.com/news/articles/2022-07-27/powell-signals-more-hikes-coming-leaves-out-details-this-time
9. https://www.bloomberg.com/opinion/articles/2022-07-27/fed-meeting-are-interest-rates-at-neutral-markets-certainly-hope-so
10. https://www.ft.com/content/2a952f27-acdd-49f3-bd42-572487f781e3
11. https://www.blackrock.com/corporate/literature/market-commentary/weekly-investment-commentary-en-us-20220725-expect-more-volatility-after-fed-hike.pdf
12. https://www.reuters.com/world/us/us-yield-curve-flashing-more-warning-signs-recession-risks-ahead-2022-07-27/
13. https://www.reuters.com/markets/us/fed-unveil-another-big-rate-hike-signs-economic-slowdown-grow-2022-07-27/
14. https://www.bloomberg.com/news/articles/2022-07-31/kashkari-says-fed-committed-to-slowing-inflation-to-2-target
15. https://www.bloomberg.com/news/articles/2022-07-25/biden-team-s-take-on-technical-recession-it-s-not-a-real-one
16. https://www.bloomberg.com/news/articles/2022-07-25/biden-team-s-take-on-technical-recession-it-s-not-a-real-one
17. https://www.cnbc.com/2022/07/28/gdp-q2-.html
18. https://www.gsam.com/content/gsam/us/en/advisors/market-insights/market-strategy/market-pulse/2022/market-pulse-Jul22.html
19. https://www.cnbc.com/2022/07/28/stock-market-news-updates-open-to-close-future.html
20. https://www.blackrock.com/us/individual/insights/blackrock-investment-institute/outlook
21. https://www.blackrock.com/us/individual/insights/blackrock-investment-institute/outlook
22. https://www.blackrock.com/us/individual/insights/blackrock-investment-institute/outlook

Performance table sources:

BBAB: https://www.bloomberg.com/quote/LBUSTRUU:IND

S&P 500: https://www.morningstar.com/indexes/spi/spx/performance

MSCI: https://www.msci.com/end-of-day-data-search