QUARTERLY ECONOMIC COMMENTARY | Q2 | 2022

The markets closed out their most bruising first half of a year in decades, fueled by accelerating inflation and rising interest rates. Few sectors of the market were left unscathed. The S&P 500 index fell 21%, suffering its worst first half of a year since 1970[1]. Normally a stable asset class, investment-grade bonds, as measured by the iShares Core U.S. Aggregate Bond exchange-traded fund, lost 11%, posting its worst start to a year in history. Stocks and bonds in emerging markets declined, hurt by slowing growth. About the only thing that rose in the first half was commodities prices, most notably oil prices, which surged above $100 a barrel.

The economy and markets are in the midst of an important transition. If you want to know how we got here, you should consider that markets over the last ten years were largely driven by a solid underlying economy, with an unprecedented amount of monetary stimulus from the Fed. There was a combination of several types of stimuli provided, along with low interest rates, which helped stocks sell at valuations above historical averages. When this happens, it means that investors are willing to pay ahead (sometime several years) for earnings. Specifically, many of the tech stocks reached sky high valuations that were greater than 50 times earnings. While it will take some time, history may prove that we were in fact in a stock market bubble. We have written about these high valuations in growth stocks for the last several years.

What should you do now? Perhaps the best thing to do when markets are volatile is to revisit your time horizon and income needs over the next year. Chances are you may not need to tap your investments for a while which may allow your portfolio to recover. We've taken steps to overweight large cap value stocks on the equity side and shorten duration on the fixed income side where appropriate. We've also introduced innovative strategies for clients who are seeking above average returns with some downside protection. In short, work with professionals that have the experience, tools and processes to help you manage market risk.

We are watching for changes in a few key data points in the second half of the year. A concern that mounted at the end of the quarter was the low consumer sentiment level[2] and whether it portends a further slowdown in consumer spending. We are also paying close attention to the fact that the 2-year Treasury (UST) yield registered higher than the 10-year UST in the first week of July. Yield curve inversions do not guarantee a recession, but they have been a relatively accurate indicator historically[3].

There have been very few opportunities for growth in 2022[4]. In this type of environment, we feel fortunate to be able to serve clients like you who remain focused on their financial plans and long-term goals. We believe this cycle will pass, as many other have, yet no one knows exactly when that will happen.

Miller Wealth Advisors

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Footnotes

1. *Dow Jones Market Data, 7/22*
2. *U of Michigan Consumer Sentiment Index, 6/22*
3. *Valmark –TOPS Quarterly Update Q2 2022, 7/22*
4. *Wall Street Journal: Markets Post Worst Half in Decades, 7/22*