June 2022: Market Review

Global equities and other risk assets suffered broad declines this month as interest rate concerns during the first part of the year turned to recession fears in June. University of Michigan's monthly consumer sentiment reading fell to an all-time low reflecting consumers' concerns over high inflation and its impact on their discretionary spending. In a modest surprise the June inflation report showed an increase to +8.6% year-over-year, whereas the market was expecting that inflation had peaked in April and that inflation would gradually progress lower. In response to this stubbornly high inflation report, the Federal Reserve hiked the Fed Funds rate by 75 basis points, bringing the short-term rate up to 1.5%-1.75%. Investors fear that the Federal Reserve's aggressive tightening cycle could dampen economic growth enough to propel the U.S. economy into a recession. The S&P 500 Index fell -8.3% in June, resulting in its largest loss for the first half of a calendar year since 1970 (-20.0% year-to-date) and officially falling to into bear market territory. The tech-heavy NASDAQ Composite Index tumbled -8.7% in June, bringing its year-to-date loss to -29.2%. The Dow Jones Industrial Average was down -6.6% in June and has declined -14.4% so far this year.

In domestic markets, growth stocks outperformed value across all capitalization sizes. The Russell 1000 Growth Index decreased -7.9% while the Russell 1000 Value declined -8.7%. The Russell Midcap Growth Index fell -7.5% versus a decline of -11.0% for the Russell Midcap Value Index. The Russell 2000 Growth Index was down -6.2%, while the Russell 2000 Value Index fell -9.9%. WTI crude oil ended the month at $106, posting the first monthly decline of the year. However, oil prices remain up +41.3% year-to-date. The Bloomberg Commodities Index, which had been the lone safe-haven asset class up until June, fell almost -11% in the month (although still up +18% in 2022).

Developed international indices declined roughly the same amount as domestic stocks in June as similar concerns of high inflation, monetary tightening, and slowing economic growth negatively impacted sentiment already weakened by the conflict in Ukraine. The MSCI EAFE Index tumbled -9.3% while the MSCI ACWI ex-U.S. Index (which includes emerging markets) fell -8.6%. The MSCI Emerging Markets Index (-6.7%) outperformed developed markets due to strong gains in the Chinese equity market (+5.7%) as the government began reopening the economy and removing lockdown restrictions.

U.S. fixed income markets had a volatile month as the Federal Reserve hiked interest rates by the highest amount in a single month since 1993. Treasuries yields were initially sent higher as investors feared the terminal rate of this Fed tightening cycle had gone higher. The yield on the 10-year Treasury reached as high as 3.49% mid-month before falling to 2.98% at the end of June, a modest overall rise from last month's close of 2.85%. The Bloomberg U.S. Aggregate Bond Index declined -1.6% during the month while the Bloomberg +20 Year Index fell -1.4%. The Bloomberg Corporate High Yield Bond Index declined -6.7% this month as concerns over a potential recession caused a sell-off in credit, particularly lower quality issues.

Both fixed income and equity markets experienced significant volatility in June over concerns about inflation and the impact of the Federal Reserve's tightening cycle on economic growth. Despite the negative market sentiment, the job market has shown resilience as the unemployment rate held steady at 3.6% in May and the economy added 390,000 jobs during the month. Meanwhile, job openings remain elevated (11.4 million openings at the end of April) and layoffs declined in April (1.2 million). Corporate earnings estimates remain upbeat as median forecasts are showing high single digit earnings growth for 2022 and 2023. Despite a strong labor market and positive corporate profits so far this year, investors remain concerned about the Federal Reserve's ability to combat inflation without causing a contraction in economic growth. Volatility will likely remain elevated in the second half of the year in both equity and Treasury markets as investors continue to grapple with inflation concerns and the impact of the Federal Reserve's tightening cycle on inflation, economic growth, and corporate earnings.

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