July 2022: Market Review

Global markets had a significant bounce in July, with both equity and fixed income assets rising despite a swath of bearish news. Real GDP growth was negative for the second quarter in a row at -0.9%. News outlets and bearish investors were quick to remind everyone that two consecutive quarters of negative GDP growth is considered a "technical recession", but the National Bureau of Economic Research (NBER) are the true arbiters of deciding when the U.S. economy has entered a recession. The NBER has a much broader view of what determines a recession, encompassing other parts of the economy, such as unemployment which remained near a pre-pandemic low at 3.6% as nonfarm payrolls grew 372,000 in June. The CPI measure of headline inflation rose to +9.1% year-over-year in June, remaining stubbornly high, and prompting the Federal Reserve to hike the Fed Funds rate by another 75 basis points, bringing the short-term rate up to 2.25%-2.50%. However, Chairman Powell's comments were viewed as less hawkish by investors after he noted that the FOMC will eventually slow the magnitude of rate hikes. The S&P 500 Index rose +9.2% this month, the highest one month return since April 2020, bringing down its year-to-date loss to -12.6%. The tech heavy NASDAQ composite Index had the highest return of the major indices, increasing +12.4% for the month, but remained down -20.5% year-to-date. The Dow Jones Industrial Average was up +6.8%; down -8.6% year-to-date.

In domestic markets, growth stocks outperformed value across all capitalization sizes. The Russell 1000 Growth Index increased +12.0% while the Russell 1000 Value Index rose +6.6%. The Russell Midcap Growth Index gained +12.2% versus a rise of +8.6% for the Russell Midcap Value Index. The Russell 2000 Growth Index was up +11.2% while the Russell 2000 Value Index increased +9.7%. WTI crude oil ended the month at $98, marking the second straight month of falling prices. Conversely, natural gas prices had one of the sharpest one month upward moves on record, rising to $8.23 per metric unit from $5.40 a month prior, an approximate +53% increase.

Developed international equities also rose, but underperformed domestic stocks in July, as high inflation, monetary tightening, and a growing energy crisis spurred on by the conflict in Ukraine muted returns. A stronger U.S. dollar further eroded returns for U.S. based investors in overseas markets. The MSCI EAFE Index rose +5.0% while the MSCI ACWI ex-US Index (which includes emerging markets) rose +3.4%. The MSCI Emerging Markets Index fell -0.3%, predominantly due to weakness in Chinese equities on renewed regulatory pressure on the technology sector and a reemergence of COVID-19 cases.

U.S. fixed income markets were positive for the month even as the Federal Reserved continued to hike interest rates. Treasury yields were inverted across various segments of the yield curve for a majority of the month as shorter-term yields rose while longer-term yields fell. The yield on the 2-year U.S. Treasury rose to 2.89% while the 10-year U.S. Treasury fell to 2.67%, marking a -22 basis point spread. The Bloomberg U.S. Aggregate Bond Index increased +2.4% during the month and the Bloomberg +20 Year Index rose +2.5%. The Bloomberg High Yield Bond Index rebounded, rising +5.9% this month, outperforming investment grade bonds.

The downbeat GDP print will certainly reinforce pessimism regarding the outlook of the U.S. economy, but it does show that the Fed's aggressive policy tightening is having the intended effect of cooling the heated economy to help alleviate high inflation. Contrary evidence that the economy is otherwise healthy can be found in the labor market, as unemployment remained low and job openings remained near historical highs (11.3 million at the end of May). Corporate earnings this quarter have been positive, led by record revenue growth in the Energy sector, and 73% of companies in the S&P 500 Index beating earnings estimates. Looking forward to the rest of the year, investors attention will be focused on if the Federal Reserve's front-loaded rate hikes and the recent negative GDP growth print is helping cool inflation. Even if inflation begins to fall to more normal levels, volatility will likely remain elevated as investors will have to consider how the moves to slow inflation will affect future economic growth and corporate profitability.

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