

# FLAGSTONE

FINANCIAL ADVISORS, INC.

## MARKET REVIEW SECOND QUARTER 2022

### ***What Happened:***

U.S. stocks officially hit bear market territory in the second quarter. Year-to-date, the S&P 500 Index is down 20%. Other major indices were also down, anywhere from 20% to 40%. The hardest hit stocks in 2022 were in the technology sector which, until this year, were the market's darlings—we all remember the beloved FAANG stocks. In an ironic shift, the energy sector assumed leader of the pack status despite political directives intended to move us away from fossil fuels. A stark reminder, perhaps, that investing is an unpredictable endeavor and we must be prepared for any outcome.

Most of the unrest in 2022 has been triggered by inflation—the highest level we have seen in 40 years. To combat inflation, the Federal Reserve began a program of raising short-term interest rates meant to cool the economy which, in turn, should bring down inflation. The problem, however, is that slowing down the economy may lead to recession.

Recession is not the end of the world. It is common to slip into recession every 5-6 years on average. There will be some short-term discomfort, but the economy always emerges stronger in the end. From a market perspective, businesses will find ways to stay profitable in spite of the slowing economy. Those with strong business models will succeed while the weaker ones will fail. This is a normal process and it is healthy from a long-term perspective.

### ***YTD Performance Through June 30, 2022:***

S&P 500 Index (large stocks)	-20.0%
Russell 2000 Index (small stocks)	-23.4%
MSCI EAFE Index (international stocks)	-19.6%
Bloomberg U.S. Aggregate Bond Index (bonds)	-10.4%

### ***Prognosis:***

It is impossible to know for sure if we have hit a market bottom. Stock valuations are low, but there may be more downside. Historically, markets hit bottom when investors are gloomiest. With investor sentiment at 35 year lows, the mood seems quite gloomy indeed. This may, in fact, be the silver lining we have been looking for. The market rebound will begin without warning, just when nobody expects it, and the advance will be swift and significant. For those already invested in the market, stay the course. It will turn and you will be rewarded for your patience. For those with cash on the sidelines, it may be time to invest. By the time you become certain that the worst is behind you, you may have already missed out on much of the recovery. Hesitation can be costly. As the famous investor, Warren Buffett, has said many times, “be fearful when others are greedy and greedy when others are fearful.”

Stay calm and think long-term. Enjoy your summer!

*SCK*