“Markets post the worst first half of year in decades” (Wall Street Journal 7/1/22). That about says it all. In the second quarter, the DJIA lost -10.8%, the S&P 500 lost -16.1%, the NASDAQ lost -22.5% and the Bloomberg Aggregate Bond Index slid -4.7%. As the data shows, there was virtually no opportunity to capture investment gains in the most recent quarter. High flying cryptocurrencies also suffered significant losses.

We are in, or nearly in, a recession. Inflation is high and will probably go higher. The Federal Reserve is finally raising interest rates. In June, rates were increased by ¾%, the third increase this year. The market expects two more increases this year and potentially further increases next year. These increases are expected to have a negative impact on stocks and bonds.

There are many reasons why our economy has slowed down: Covid, supply chain issues, the Russia/Ukraine war and its impact on oil (which impacts many sectors of the economy), grain prices, and other goods as well as higher mortgage rates and their impact on the housing market. Additionally, consumer confidence has declined significantly as a result of higher inflation and its impact on consumers daily lives. Additionally, the current administration is sending the oil and gas industry mixed signals that discourage long term investment in oil/gas production capacity.

International markets continued to decline in the second quarter. The exception was China which was up +2.6% largely related to relaxation of Covid Restrictions. Other geographic regions were hurt by the global issues: the pandemic, oil prices, inflation and, of course, the Russia/Ukraine war. With respect to market stability, Iran and North Korea continue to be potential problem areas.

Hopefully, in response to the current challenging environment, the U.S. government will develop a cohesive strategy that addresses short term energy needs and long-term clean energy goals. Additionally, ongoing deficit spending, particularly in a rising rate environment, poses concerns. Results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 6/30/2022** | **12 MONTHS Ending****6/30/2022** | **THREE YEARS Ending** **6/30/2022** | **FIVE YEARS Ending** **6/30/2022** |
| **DJIA** | -10.8% | -9.1% | 7.4% | 10.0% |
| **S & P 500** | -16.1% | -10.6% | 10.6% | 11.3% |
| **NASDAQ Composite** | -22.5% | -24.0% | 11.3% | 12.4% |
| **Bloomberg Agg. Bond** | -4.7% | -10.3% | -0.9% | 0.9% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
|  *Large Cap* |  |  |  |  |
|  Growth | -20.8% | -23.9% | 8.1% | 11.0% |
|  Value | -11.3% | -4.9% | 7.9% | 7.8% |
|  *Small Cap* |  |  |  |  |
|  Growth | -19.6% | -30.3% | 4.2% | 7.8% |
|  Value | -13.4% | -12.0% | 7.7% | 5.3% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| International |  |  |  |  |
|  Europe  | -13.9% | -19.2% | 1.7% | 2.0% |
|  Latin America | -23.7% | -24.1% | -8.3% | 0.2% |
|  Japan  | -10.2% | -16.3% | 1.7% | 1.8% |
|  Pacific ex Japan  | -8.1% | -23.3% | 3.2% | 4.3% |
|  China  | 2.6% | -25.5% | 4.8% | 4.2% |
|  India  | -13.6% | -8.2% | 5.9% | 4.0% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 6/30/2022** | **12 MONTHS Ending** **6/30/2022** | **THREE YEARS Ending** **6/30/2022** | **FIVE YEARS Ending** **6/30/2022** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
|  Long | -11.6% | -19.5% | -1.9% | 1.2% |
|  Intermediate |  -3.0% | -8.3% | -0.3% | 1.2% |
|  Short |  -0.5% | -3.1% | 1.4% | 1.6% |
| Government Bond |  |  |  |  |
|  Long  | -12.2% | -18.8% | -3.1% | 0.3% |
|  Intermediate | -3.5% | -8.5% | -1.1% | 0.3% |
|  Short | -1.3% | -4.4% | -0.2% | 0.6% |
| Municipal Bond |  |  |  |  |
|  Long  | -4.7% | -11.3% | -0.8% | 1.2% |
|  Intermediate | -3.0% | -8.3% | -0.3% | 1.2% |
|  Short | -0.5% | -3.1% | 0.1% | 0.8% |

**Market Outlook**

With caution advised last quarter, we are now advising even more caution as we anticipate a recession in coming months. The Federal Reserve will continue with rate increases and interest rates will continue to rise. International issues will always be with us.

Therefore, we recommend you consider making additional reductions to your current equity allocation particularly if you are at or near retirement. The proceeds should be invested in short term fixed income investments. Whenever possible, these changes should be made in non-taxable accounts to avoid potential capital gains taxes. We can always increase equity allocations when economic conditions are more favorable.

**MSM FINANCIAL STRATEGIES**

 **7/7/2022**

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