



PENSION & WEALTH MANAGEMENT ADVISORS

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Q2 2022 - Market Commentary¹

- Global financial markets experienced large declines during the second quarter as inflationary pressures continued and the economic outlook worsened. Global equity and debt markets have declined by a stunning \$31 trillion since the beginning of 2022.
- The U.S. economy experienced its highest level of inflation since the late 1970's, which forced the Federal Reserve (Fed) to raise interest rates 0.75% in June, its largest monthly interest rate increase since 1994. In addition, the Fed's current bias is to frontload additional interest rate increases in order to break the high levels of inflation currently being experienced in the U.S.
- The broad U.S. stock market declined nearly 17% for the second quarter as investors worried that the Fed would continue to raise interest rates to fight inflation even as U.S. economic data indicated a significant slowdown is underway. Second quarter real GDP is expected to be negative. The U.S. stock market suffered its lowest quarterly return since 2008 and the worst first half return since 1962. The Nasdaq declined 30% in the first half of 2022, its worst performance in 20 years.
- Non-U.S. stocks also suffered large declines but outperformed U.S. stocks during the quarter, despite the more direct and negative impacts of the Russia/Ukraine War on the broad European economy and weaker currencies like the Japanese Yen, which has declined 31% against the U.S. dollar over the past 18 months. Emerging markets was the best performing equity asset class during the second quarter, helped by a rebound in sentiment towards Chinese stocks as C-19 mass lockdowns were lifted.
- Bonds had another challenging quarter as inflationary pressures worsened and the Fed and other global central banks have been forced to accelerate interest rate increases. Investors withdrew \$200 billion from bond mutual funds in the U.S. during the first half of the year. The 10-year U.S. Treasury yield ended the quarter at 3.00%, up from 2.34% at the end of the first quarter and 1.51% at the start of the year. Lower credit quality bonds suffered the biggest declines as recession odds increased and investors became more defensive.
- Oil rose to a near record high in the second quarter before pulling back in June on recession fears. West Texas Intermediate Crude Oil increased 5% for the second quarter and 40% year-to-date.
- Gold declined nearly 7% as interest rates rose and the U.S. dollar strengthened. Nonetheless, gold was the second best performing asset during the first half of 2022.
- Bitcoin and other digital assets suffered substantial declines as investors fled high risk assets and some digital trading platforms experienced major financial stress. Several digital coins completely collapsed and a crypto currency hedge fund failed to meet margin calls and was liquidated.
- Balanced portfolios experienced double-digit declines as both stocks and bonds fell. The average 60/40 balanced fund is down 16% year-to-date, the worst six months of performance since the second half of 2008.

Performance Table¹

	<u>2022</u>		<u>2022YTD</u>		<u>2021</u>		<u>2020</u>		<u>2019</u>	
S&P 500 Index (U.S. large/mega cap stocks)	-16.1%	↓↓↓	-20.0%	↓↓↓	28.7%	↑↑↑↑	18.4%	↑↑↑	31.5%	↑↑↑↑
Russell 2000 Index (U.S. small cap stocks)	-17.2%	↓↓↓	-23.4%	↓↓↓	14.8%	↑↑↑	20.0%	↑↑↑	25.5%	↑↑↑↑
MSCI EAFE Index (large cap developed markets int'l stocks)	-14.5%	↓↓↓	-19.6%	↓↓↓	11.3%	↑↑↑	7.8%	↑↑	22.0%	↑↑↑
MSCI EM Index (emerging markets stocks)	-11.4%	↓↓↓	-17.6%	↓↓↓	-2.5%	↓	18.3%	↑↑↑	18.4%	↑↑↑
MSCI All Countries World Index (global stocks)	-15.7%	↓↓↓	-20.2%	↓↓↓	18.5%	↑↑↑	16.3%	↑↑↑	26.6%	↑↑↑
Bloomberg Aggregate Bond Index (inv. grade bonds)	-4.7%	↓	-10.4%	↓↓↓	-1.5%	↓	7.5%	↑↑	8.7%	↑↑
BofA ML High Yield Index (below inv. grade bonds)	-9.9%	↓↓	-13.9%	↓↓↓	5.4%	↑↑	7.1%	↑↑	14.3%	↑↑↑
Bloomberg Short-Term Treasury Index (cash)	0.0%	↔	-0.1%	↔	0.0%	↔	1.0%	↑	2.5%	↑
Bloomberg Municipal Bond Index	-3.0%	↓	-9.0%	↓	1.5%	↑	5.2%	↑↑	7.5%	↑↑
Gold	-6.9%	↓↓	-1.3%	↓	-3.7%	↓	25.1%	↑↑↑↑	18.4%	↑↑↑
Oil (West Texas Intermediate Crude)	4.8%	↑	40.5%	↑↑↑↑	55.8%	↑↑↑↑↑	-20.9%	↓↓↓	31.5%	↑↑↑↑
Bitcoin	-58.4%	↓↓↓↓↓	-58.7%	↓↓↓↓↓	59.0%	↑↑↑↑↑	303.7%	↑↑↑↑↑	90.3%	↑↑↑↑↑
Morningstar Moderate Target Allocation (60% stocks / 40% stocks)	-11.5%	↓↓↓	-16.1%	↓↓↓	10.2%	↑↑↑	12.8%	↑↑↑	19.0%	↑↑↑

¹ Data sourced from Barclays, Market Watch, MSCI, Russell, Standard & Poors, Wall Street Journal and Barrons.