

PERSPECTIVES & OUTLOOK

June 2022



Inflation, Fedwinds Weigh on Stock Prices

The highest inflation in 40 years, suddenly hawkish Fed policy, and Russia's invasion of Ukraine have battered stock prices this year. As of mid-June, the S&P 500 had fallen 24% from its January peak. Growth stocks with high valuations proved especially vulnerable.



History Suggests Reasons for Optimism

The first 115 trading days of 2022 (S&P -23%) make this one of the eight worst starts to a calendar year since 1928. In the other seven, US stocks were positive over the next 6 1/2 months every time, with the S&P gaining 18% on average through year-end.



US Equity Valuations -35% from their Peak

As of June 16, the forward P/E ratio for the S&P 500 was 15.3, the lowest point since the pandemic panic (March 2020). US stock valuations, now below their 10-year average (16.9), suggest an awful lot of negativity is already priced into equities.



Fed Likely to Fall Short of Expectations

The Fed's 0.75% rate hike in June was its largest since 1994, but we believe Fed policy will ultimately adjust to market pressures. Consensus expectations suggest a Fed Funds rate of 3.5% by year-end. Expect the Fed to ultimately fall short of that target.



Consumers, Companies Remain Strong

Consumers and businesses are well-positioned to weather an economic slowdown. Debt-to-income ratios are low. Wage growth is accelerating. Unemployment is < 4%. Corporate cash flows are up, banks are well-capitalized, and most debt is fixed at low rates.



High Gas Prices Impossible to Ignore

The national average for gasoline rose to \$5.11 per gallon in mid-June. One year ago, the average price was \$3.16/gallon. Two years ago, it was \$2.19/gallon. Few inflationary pressures are as noticeable to American families as surging energy costs.



What Happens to Stocks in a Recession?

There have been 17 bear markets since World War II. The S&P 500 declined by 31% on average. In the nine bear markets also accompanied by a recession, the average decline was 36%. History indicates stocks are much closer to the bottom than the top.



Hot Housing Market Could Cause Burns

The latest Case-Shiller data shows home prices nationally have increased 20% in the last 12 months. 30-yr mortgage rates are approaching 6%. An unbalanced housing market and low affordability create hurdles to a healthy economy.