MARKSGROUP WEALTH MANAGEMENT

PERSPECTIVES & OUTLOOK

August 2022

Fedwinds Turn to Tailwinds in July

The S&P 500 rallied 9% in July, the best month this year for US equities. Decades-high inflation and hawkish Fed policy remain a concern, but the bounce is a welcome relief for investors. The S&P is roughly midway between its all-time high and the mid-June low.

History Suggests Reasons for Optimism

The first 115 trading days of 2022 (S&P -23%) made 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 -30% from their Peak

As of July 31, the forward P/E ratio for the S&P 500 was 17.1. The mid-June P/E (15.3) was the lowest since the pandemic panic (March 2020). US stock valuations are appropriately below their 5-yr average (18.6), considering slowing economic growth.

Fed Likely to Fall Short of Expectations

The Fed's 0.75% rate hikes in June and July were the largest since 1994, but we believe Fed policy will ultimately adjust to market pressures. Consensus projections 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 above $5 per gallon in mid-June before moderating. One year ago, the average price was $3.17/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%. At this year's mid-June low, the S&P had fallen 25% from its peak.

Housing Market Will Slow, Help Inflation

An exceptionally hot housing market has begun to cool. Sky high prices and lower affordability (30-yr mortgage rates near 6%) will put a big dent in demand. This will help restore some balance to residential real estate as well as slow inflation.