Market Brief

July 2022
Commentary:

Market Snapshot	
Closing Values as of 07/11/2022	
Dow	31,174
S&P 500	3,854
Nasdaq	11,373
Gold	$1,732

It's confirmed: We're in a bear market.

As we begin the last-half of 2022, market, economic, and geopolitical conditions all appear distressed. Inflation is hitting 40-year highs, the Federal Reserve is sharply reversing monetary policy, the pandemic hasn't gone away, and supply chain woes have been exacerbated by COVID-19 lockdowns in China and Russia's invasion of Ukraine, with the latter putting the Western bloc the closest to a war footing in decades.

What began in the first quarter as a fairly modest market correction, driven almost entirely by general fear and uncertainty over persistently high inflation, ultimately fell into a bear market late in the second quarter when investors began to fear a possible Fed-induced recession. The plunge on June 13 put the S&P 500 down 20% from its January peak... which qualifies this as the first bear market since 2020 and 2008 before that. The tech heavy NASDAQ is down nearly 30% from its January highs.

We've had 25 bear markets since 1929. They typically last a little over one year, during which US stocks drop 33%, on average. If this is to be an "average" bear market, stocks will slide to new lows before it is all over. Problem is…there is no "average" bear market. Some sell-offs are short and sharp, lasting only a few months, while others linger on for years. Experience (and history) has taught me the only thing you can really count on is that bear market sell-offs are very uncomfortable and they all end at some point…usually at the point of maximum discomfort.

A multitude of factors conspired to generate the stock market's worst first-half since 1970, but they all emanated from one word: **inflation**. The cost of living is running at levels the U.S. has not seen since the early 1980s, making inflation the front and center issue for most consumers. Recession fears and uncertainty about the path ahead have compounded the impact of inflation, running by one Labor Department measure at 8.6% in May, the highest since December 1981. The June numbers may not be much better…in fact they COULD be worse.

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Are Recession Fears Warranted?
According to Richard Kelly, head of global strategy at TD Securities, The odds of the U.S. economy falling into recession in the next 18 months are greater than 50%. Exactly when that downturn might hit, how deep it may be and how long it might last is harder to predict.

Rising gas prices combined with a hawkish Federal Reserve and a generally slowing economy are among the main risks facing the world's largest economy right now. The greatest risks for recession in the near term are the Fed's continued interest rate increases and the fallout from surging gas prices BOTH reaching "peak drag" on the economy by the year end or into 2023. And if the U.S. manages to weather all of that, a continued general slowdown could lead to a recession by mid-to late 2023.

We may already be in a Recession…sort of
The economy could slip into a technical recession as soon as the end of the second quarter of 2022. The Atlanta Fed's GDPNow measure, which tracks economic data in real time and adjusts continuously, shows second-quarter output contracting by 2.1%. Coupled with the first-quarter's decline of 1.6%, that would fit the technical definition of recession. Although many cite the two quarters of negative growth as a recession, the actual definition from the National Bureau of Economic Research (NBER) is a little more nuanced, typically considering a downturn in the labor market as requisite for an official recession declaration. With job creation and employment remaining strong and hourly wages continuing grow, the likelihood of recession as defined by the NBER is low…for now!

Even if a technical recession is not the same as an "official" recession, it is a sign of significant economic weakness that should be respected. In most cases of recession the actual beginning is not identified until long after it has begun, and by the time "we" know we are in a recession we are closer to the end than the beginning (the same can be said about bear markets). If nothing else, it would be a good idea to prepare, if not for recession, at least for a lower growth environment.