MONTHLY MARKET UPDATE

July 2022

Market narratives during July included relatively strong second quarter earnings reports, decelerating global economic growth, and central bank resolve with a backdrop of persistently high inflation which began to show signs of moderating toward month end. The FOMC (75bps) and ECB (50bps) both delivered expected rate hikes during the month as they attempt to temper inflation without crippling their respective economies. This was the ECB's first rate hike since 2011. Wall Street's focus on growth with the Fed's focus on inflation and employment are clearly at odds with one another. July's economic calendar painted a very mixed picture with slowing yet still expanding economic activity, a challenged housing market, and inflation pressures well beyond the comfort level of the FOMC offset by a robust job market, signs that peak inflation may be behind us, and global equities and bonds turning in their best month of the year. All the while, geopolitical risk remains front and center with tragic conflict in Russia/Ukraine alongside percolating troubles in the Middle East and China/Taiwan.

Financial markets rebounded sharply in July from June's carnage with stock and bond markets both posting strong results. U.S. stocks (+9.3%) outperformed their global peers (+3.4%) as falling bond yields helped the U.S. growth/tech oriented domestic market. Both Europe and Japan rose over 5% while emerging markets were flat given another difficult month for Chinese markets (-9.5%) due to a continuation of their zero-Covid policy domestically. Interest rates fell across the curve with a more pronounced move lower in longer maturities while high yield credit spreads narrowed from 5.87% to 4.83% on the month. Commodity markets were generally higher with energy up 12.22% (despite WTI oil falling 4.18%) thanks to natural gas moving 52% higher in July. The safe haven USD weakened slightly during July where we saw the Euro briefly touch parity with the USD and the Yen fall to its weakest level since 1998.

Exactly how much bad news (recession, runaway inflation, etc..) was priced in toward the end of June? It seems July worked to reprice some of those sentiments. While global economies are slowing materially, a recession in the U.S. is not yet a foregone conclusion. Positive surprises on inflation can catalyze a rebound in risk assets but supply side inflation pressures (commodities, supply chain, elevated goods consumption) receding does not necessarily mean inflation well beyond the FOMC comfort level won't persist for some time to come.

Market Anecdotes

- Over 800 companies have reported 2Q earnings thus far with decent beat rates and underwhelming beat magnitudes. Upward guidance has fallen from 20% to 10% over the past few quarters but 10% is still an impressive number. S&P 500 earnings and revenue growth sit at 6.7% and 13.6%.
- July's FOMC meeting delivered the expected 75bps rate hike, bringing rates from zero to the Fed median projection of "neutral" (2.25%-2.5%) in four months (ala Volker). The Fed also abandoned forward guidance and highlighted attempts to balance growth and inflation risks.
- The Bank of Canada hiked rates by 100bps and the RBNZ by 50bps to take both reference rates to 2.5%. The ECB notched a 50bps rate hike to combat inflationary concerns.
- Market reaction to the overwhelmingly robust July jobs report was categorized as 'good news is bad news' with futures pricing in a more aggressive tightening path and a higher terminal rate.
- July's CPI read painted a more dovish picture, however, with future market expectations pricing in greater odds of 50bps rate hike as opposed to 75bps at September's meeting.
- The tug of war between Wall Street (growth focus) and the Fed (inflation focus) will be the key determinant for risk assets and the economy looking forward.
- Global inflation has yet to abate but falling commodity prices (including oil) are providing some hope. Oil's notable break to the downside is clear but Russia/Ukraine, China zero Covid,

and global growth combined translate to extreme levels of uncertainty.

- Gas prices have fallen for over 50 consecutive days and $1.00 from the peak, now around $4.11 per gallon with some areas of the country actually seeing a two handle on a gallon.

- With a second straight quarter of negative GDP (-0.9% for Q2), the BCA bull contingency noted the strong possibility of 2Q GDP being revised to positive growth in addition to noting Q1 real GDI increased 1.8% in the first quarter.

- Interesting anecdote on the impact of P/E multiple compression on the Russell indices is that the R1000 Value now includes prior growthy names such as Netflix and Facebook while the R1000 Growth included Coca Cola and Procter & Gamble.

- Bespoke notes the 25 largest stocks in the Russell 3000 (<1% of the index) have added $2.3tn in market cap since the 6/16 low. The remaining 99%+ names in the index have added roughly $3.1 trillion. The 5 largest have added $1.69 trillion in market cap since 6/16.

Economic Release Highlights

- July CPI rose less than expected with Headline CPI (a,e) coming in at 8.5% vs 8.7% YoY and 0.0% vs 0.2% MoM. Core CPI (a,e) came in at 5.9% vs 6.1% YoY and 0.3% vs 0.5% MoM.

- The Personal Income & Outlays report revealed PCE inflation near consensus with headline of 1.0% vs 0.9% MoM and 6.8% vs 6.7% YoY and core of 0.6% vs 0.5% MoM and 4.8% vs 4.7% YoY. Personal income (0.6% vs 0.5%) and personal consumption expenditures (1.1% vs 0.9%) both increased more than expected.

- Retail Sales bounced back from the prior month's disappointing result with headline (1%a vs 0.9%e), ex-vehicles (1%a vs 0.6%e), and ex-vehicles & gas (0.7%a vs -0.2%e).

- U.S. 2Q GDP registered -0.9% for the second quarter, within the consensus estimate range of -1.1% to 1.5%.

- July's Employment Situation reported new jobs of 528,000 far exceeding consensus of 250,000, taking the unemployment rate down one tick to 3.5%.

- Labor market participation fell one tick to 62.1% and average hourly earnings came in higher than consensus with growth rates MoM (0.5% vs 0.3%) and YoY (5.2% vs 5.0%).

- The JOLT Survey revealed 10.698mm job openings, fewer than the 11.0mm forecasted and well below the 11.303mm openings in May.

- The Conference Board's Consumer Confidence Index for July came in near consensus at 95.7 versus 96.8.

- UofM Consumer Sentiment for July of 51.1 came in slightly higher than the forecast of 50.0 but was generally within consensus range of 48.4-53.0.

- July's ISM Manufacturing Index beat expectations of 52.2 with a reading of 52.8. ISM Services Index came in well above consensus of 53.0 at 56.7.

- U.S. PMIs (C, M, S) of 55.1, 59.7, 54.7 saw manufacturing readings surprise on the upside but services coming in under consensus.

- Eurozone and Japan PMIs (C, M, S) of (49.8, 49.8, 51.2) and (50.2, 52.1, 50.3) respectively saw Europe officially dip into contraction on two fronts and second derivative slowing from Japan.

- New Home Sales of 590K were below consensus forecast of 664K and range of 620k-680k. Pending Home Sales (-8.6% vs -1.0%) missed notably to the downside.

- The Case-Shiller Home Price Index was up 1.3% over the prior month, below both the forecast of 1.6% and range of 1.5%-2.1%.

- Existing Home Sales of 5.12M came in under consensus estimate of 5.395M and under the low-end consensus range of 5.15M to 5.5M.

- The Housing Market Index again fell short of consensus expectations, registering 55 versus consensus forecast of 66.

- NFIB Small Business Optimism Index tumbled to 89.5 in June, falling short of the 92.9 consensus estimate.

Positioning

The risk asset rally in July was a welcomed event and likely due to an overdone move to the downside in late June given the backdrop. That said, we continue to expect persistent uncertainty over the next 9-12 months as inflation dynamics shift from supply side sources to wage, shelter, and healthcare sources leaving the FOMC in a difficult place in terms of engineering the proverbial 'soft landing' and likely a need to maintain more persistent hawkishness than what the market is currently discounting.

On balance, given the elevated degree of uncertainty around the near to intermediate term outlook with regard to Fed policy and the significant retracement experienced in July/early August, we favor a tactical rebalance of equity overweights back toward neutral. Within equities we continue to favor value-oriented exposures over higher valuation/growth sectors. Although valuations are dramatically cheaper overseas, geopolitical tensions and a high likelihood of recession in Europe have us tempering our short-term outlook for developed non-U.S. markets. A cautious stance is also warranted with emerging market allocations as China maintains its zero Covid policy and other emerging market central banks aggressively fight inflationary pressures. Fixed income investors should maintain a short duration bias and remain overweight credit sectors – especially within floating rate issues.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	32845	6.82	0.13	(8.60)	(4.14)	9.22
NASDAQ	12391	12.39	0.68	(20.47)	(14.95)	15.81
S&P 500	4130	9.22	0.39	(12.58)	(4.64)	13.36
Russell 1000 Growth		12.00	0.73	(19.44)	(11.93)	16.05
Russell 1000 Value		6.63	(0.79)	(7.08)	(1.43)	8.88
Russell 2000		10.44	1.51	(15.43)	(14.29)	7.51
Russell 3000		9.38	0.10	(13.70)	(7.35)	12.55
MSCI EAFE		4.99	(3.88)	(15.22)	(13.86)	3.64
MSCI Emg Mkts		(0.16)	(6.28)	(17.61)	(19.77)	1.25
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	1.93	(0.02)	0.03	0.16	0.06	(0.79)
High Yield	4.94	(0.24)	0.20	0.68	0.38	(0.66)
Municipal	1.75	(0.06)	(0.09)	0.03	(0.07)	(0.42)

Commodities	7/31/22	5/31/22	2/28/22	11/30/21
Oil (WTI)	93.52	114.38	96.13	66.14
Gold	1753.40	1838.70	1909.90	1804.40

Currencies	7/31/22	5/31/22	2/28/22	11/30/21
USD/Euro ($/€)	1.02	1.07	1.12	1.14
USD/GBP ($/£)	1.22	1.26	1.34	1.33
Yen/USD (¥/$)	133.25	128.53	115.11	113.22

Treasury Rates	7/31/22	5/31/22	2/28/22	11/30/21
3 Month	2.41	1.16	0.35	0.05
2 Year	2.89	2.53	1.44	0.52
5 Year	2.70	2.81	1.71	1.14
10 Year	2.67	2.85	1.83	1.43
30 Year	3.00	3.07	2.17	1.78

Style Returns

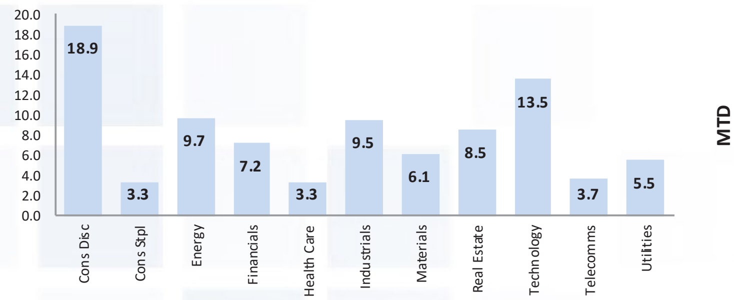
MTD

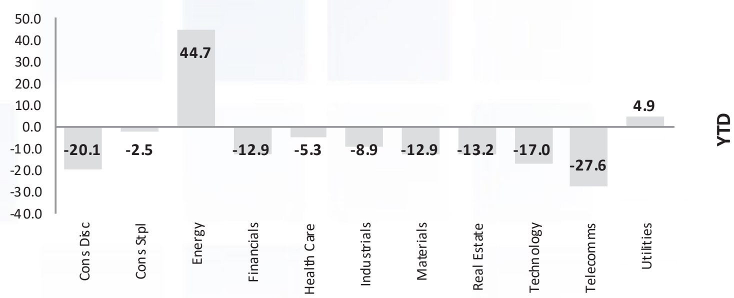
	V	B	G
L	6.63	9.31	12.00
M	8.61	9.87	12.24
S	9.68	10.44	11.20

YTD

	V	B	G
L	-7.08	-13.58	-19.44
M	-9.02	-13.83	-22.56
S	-9.30	-15.43	-21.55

S&P 500 Sector Returns





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