UNIQUE WEALTH

Executive Summary: July 2022 Unique Wealth Market Commentary

The U.S. equity markets declined -8.4% in June and -20.6% for the first half of 2022, which is the worst first half performance for the S&P 500 index since 1970 (it is worth keeping in mind that in the second half of that year, the S&P 500 generated a price gain of +27%). For the 12 S&P 500 bear markets since World War II — excluding this year's — the price decline has averaged -34% and the bear market length has averaged 10 months.
The S&P 500's decline represents its fourth-worst first-half performance ever, only behind the price losses in 1932 (-45.4%), 1962 (-23.5%), and 1970 (-21.0%).

Factors Likely to Exert Significant Influences on Financial Asset Prices

(i) **Inflation:** Numerous commodities have declined to a considerable degree versus their 52-week highs in the energy, precious metals, base metals, and agricultural sectors. These declines notwithstanding, their still-high absolute levels and rising labor and occupancy costs have contributed to businesses' and consumers' elevated inflation expectations. These future price beliefs are monitored closely by the Federal Reserve to ascertain whether high inflation expectations are getting anchored in: (i) wage and salary expectations; (ii) consumers' spending patterns, and (iii) corporate pricing behavior. At this point, barring any public health or geopolitical shocks, we are of the belief that inflation is likely to decline, yet slowly, to an elevated plateau level above the approximate +2.0% level of the immediate pre-Covid years, perhaps to the +3.0-4.0% range in late 2023.

(ii) **Monetary Policy & Interest Rates:** Yields have risen significantly in 2022 in response to: (i) quickening U.S. economic activity; (ii) rising expectations of inflation; and (iii) increasingly restrictive monetary policy. Following a 75-basis point increase on June 14-15 in the FOMC's fed funds target monetary policy rate, to a 1.50%-1.75% range, a number of FOMC voting members have been advocating for a second 75-basis point hike in the target fed funds rate at the upcoming July 26-27 meeting. Market participants in fed funds futures trading have recently been expecting the fed funds policy rate to continue rising through the course of this year to reach a midpoint above 3.50% in early 2023.

(iii) **The Economy & Corporate Profits**: The Fed has significantly downshifted its outlook for U.S. 2022 GDP growth, even as they have meaningfully increased their projection of 2022 headline inflation. The June FOMC median GDP projections call for U.S. real GDP growth of +1.7% in 2022, +1.7% in 2023, and +1.9% in 2024, down from the March projections of +2.8% in 2022, +2.2% in 2023, and +2.0% in 2024. While S&P 500 price-earnings ratios have already contracted significantly thus far this year, further equity price weakness could lie ahead if S&P 500 forward earnings per share estimates are revised downward and the results fall short of current earnings prospects.

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