I'LL HAVE THE CASH COW, MEDIUM RARE

As the old saying goes, "Cash is King!", and these days those words are ringing true for the US dollar. The greenback has been on a surge, strengthening against other major currencies despite the gaping hole in our trade deficit (US imports exceed exports). The dollar has benefitted from the ongoing war in Ukraine, as it is perceived as a safe haven, and further outperformance can be attributed to our relatively high interest rates when compared with the rest of the world (Japanese 10-year yields are 0.25%). Unfortunately, while it may feel comforting to have some Benjamin Franklins tucked under the mattress for a rainy day; with inflation running at 8.6% (year over year CPI reading for May), you aren't doing yourself any favors as each day that stack of bills feels a little bit smaller.

Consumers are feeling the pain at the pump and the grocery store, as fuel feeds into everything from fertilizer to packaging, not to mention the 18-wheelers that ship everything from farm to plate and your local Amazon warehouse. Retailers are also feeling the squeeze as patrons have scaled back on pandemic athleisure wear purchases, leaving them with an oversupply of useless inventory combined with margin compression from higher wages and input costs. All of this on top of gyrating markets, and it's enough to make you feel green!

The Fed, however, is not taking this inflation game sitting down and has taken an aggressive stance combatting rising prices with multiple interest rate hikes. The Fed surprised some with a 75 basis point (0.75%) bump at their June meeting. While these moves have resulted in a "balanced" bear market (a period when both stocks and bonds fall in price), one should benefit from slightly higher interest on bank accounts. That is, bank deposits with a true FDIC regulated institution.

On the other end of the "currency" spectrum, cryptos have taken it on the chin. The beloved Bitcoin has fallen 70% from its peak, trading around $18,000 at quarter end (leaving Elon Musk a little thin on his Twitter purchase), and it's cousin Ether has lost 77%. Overall, the total token market has lost $2 Trillion of value since last November, cutting the size of the market by more than 2/3rds. Even so-called stable coins like Terra, which were created to maintain a constant value, have broken the buck or completely disappeared. A lot of digital wallets have gone cold, and I don't mean offline.

Crypto banks such as Celsius and other unregulated Defi lenders are finding themselves overleveraged with loans backed by crypto collateral that is plummeting in price, resulting in margin calls and George Bailey-esque runs on digital banks. If all this seems quite confusing…not to worry. Just wait until the first bank in the ephemeral Meta world goes insolvent, and they send out the Meta Feds to unwind the Meta mess. What was that other saying? Oh yeah, always carry cash!

What 2021 hath giveth, 2022 hath taketh away. All major indices are in or have touched bear market territory (-20%). Why you ask? Because markets hate uncertainty and that is what we have a great deal of, currently. There is war, food shortages contributing to civil unrest in parts of Africa and the Middle East (spurring talks of another Arab Spring), ongoing supply chain issues, rampant inflation, upcoming mid-term elections and let's not forget hurricane season; all of which will be sure to cause continued volatility for some time. It is in times like these that bad news can be good news, as sagging economic indicators may force us into a recession sooner rather than later, meaning the Fed may have to pause or reverse course. The yield curve has already inverted several times (a leading indicator of recession), bond spreads have gapped out and consumer sentiment is at its lowest levels since the great financial crisis, all signaling the inevitable.

Unemployment should also be on the rise as many tech companies, and the more recently wounded crypto/defi firms, have all announced layoffs. In addition, participation rates are still below pre-Covid levels due to the many people who have yet to return to the job market. Rising rates are already starting to cool the housing market, and higher gas prices are dampening demand as people return to their "work from home" ritual to save money.

The economy is slowing. The question is, will it be slow enough for a soft landing or will there be rug burns? Already, the market is pricing in rate forecasts below the FOMC forward dot plot, meaning they believe the Fed will have to reverse course and start lowering rates again (the 10-year dipped back below 3.0%, signaling market sentiment). Furthermore, there are signs that inflation is abating (the Bloomberg commodity index is down 18% since its June 9th high), with copper, wheat, corn and even oil on the decline. While supply driven issues are still in effect, these cannot be corrected by the Fed, but instead by long-term investment and restructuring to take control over supply chains. In the short run, we will lose out on the deflationary effects of globalization; however, long-term technology should counteract inflation and increase productivity.

Closing Thoughts

Our view is that a recession is most likely unavoidable; however, it does not spell disaster and will most likely be short and shallow in nature. Generally, stock markets begin recovering prior to the end of a recession, so a recession in itself isn't necessarily an indicator of poor stock market performance. Whatever does transpire, hard or soft, shallow or deep; over the long-run stocks do rise and bonds pay income. The key is staying rational while the markets are acting irrational and committing to a long-term strategic allocation to successfully ride out the ebbs and flows.

Regards,

John P. Ulrich, CFP®
President

Whitney E. Solcher, CFA®
Chief Investment Officer

Equity Markets

The S&P 500 Index sank 16.1% in 2Q on concerns over rising rates and a slowing economy; the Index is down 20.0% YTD. All sectors posted negative returns, but the worst were Consumer Discretionary (-26%), Communication Services (-21%), and Technology (-20%). Energy, Utilities, and Consumer Staples each lost roughly 5%. Value outperformed growth by a substantial margin (Russell 1000 Value: -12.2%; Russell 1000 Growth: -20.9%) and the YTD differential is more than 15 percentage points.

The MSCI ACWI ex USA Index sank 13.7% (Local: -8.3%), bringing its YTD loss to 18.4% (Local: -11.9%). The U.S. dollar continued to strengthen, benefiting from its "safe haven" status as well as attractive interest rates relative to other developed markets. The yen lost 11% versus the greenback, the euro 6%, and the British pound 8%. Across developed market countries, losses were broad-based, with nearly all posting double-digit declines. As in the U.S., Value (MSCI ACWI ex USA Value: -11.9%) outperformed Growth (MSCI ACWI ex USA Growth: -15.7%). Technology (MSCI ACWI ex USA Technology: -23%) fared the worst with Energy (MSCI ACWI ex USA Energy: -5%) being the relative outperformer. Emerging markets (MSCI Emerging Markets: -11.4%; Local: -8.1%) outperformed developed markets for the quarter, led by China (MSCI China: +3%), which was helped by improving data as lockdowns ended as well as promises of government stimulus. Returns were mixed but negative across regions: Latin America (-22%), Emerging Europe (-21%), and Emerging Asia (-9%).

Fixed Income Markets

The Bloomberg US Aggregate Bond Index fell 4.7% in 2Q, bringing its YTD loss to 10.3%. Mortgages and corporates underperformed U.S. Treasuries, and the yield-to-worst of the Aggregate Index climbed to 3.7%. High yield corporates (Bloomberg High Yield: -9.8%) underperformed investment grade, and the Index is down 14.2% YTD. Rates were volatile during the quarter; the 10-year U.S. Treasury hit an intra-quarter high of 3.49% in June, the highest since 2011, before closing the quarter at 2.98%. TIPS (Bloomberg TIPS: -6.1%; -8.9% YTD) sharply underperformed nominal U.S. Treasuries for the quarter as longer-term inflation expectations declined. The10-year breakeven spread was 2.3% at the end of the quarter, down from 2.8% on 3/31/22.

Interest rates also rose overseas and the U.S. dollar continued to strengthen, hurting unhedged fixed income returns. The Bloomberg Global Aggregate ex USD fell 11.0% (hedged: -4.0%). Losses were broad-based with double-digit declines across Europe, in Japan, and the U.K. Emerging markets performed similarly with the JPM EMBI Global Diversified down 11.4% and the local currency JPM GBI-EM Global Diversified off 8.6%.

The Bloomberg Municipal Bond Index fell 2.9% for the quarter and is down 9.0% YTD. The shorter duration 1-10 Year Blend fell 0.8% for the quarter and 5.6% YTD. The ratio of AAA Municipal yields to the 10-year U.S. Treasury increased to 92%, up from 69% as of year-end. Outflows continued (25 consecutive weeks) and reached $76 billion, the largest drop since data was first collected (1992). Municipal credit fundamentals remained sound with state and local revenues benefiting from strong employment and property taxes.

Real Assets

Following very strong 1Q results, real assets as a group posted negative returns in 2Q as concerns over slowing global growth mounted. A lone exception was the energy-heavy S&P GSCI Index, which eked out a 2.0% gain during the quarter while the Bloomberg Commodity TR Index fell 5.7%. WTI Crude closed the quarter at $106/barrel, up from $100 on 3/31/22 and $76 at year-end. Gold (S&P Gold Spot Price Index: -7.5%), listed infrastructure (DJB Global Infrastructure: -7.1%), REITs (MSCI US REIT: -16.9%), and TIPS (Bloomberg TIPS: -6.1%) declined.

Returns for Various Periods - June 30, 2022

	Last Quarter	Year to Date	Last Year	**Last 3 Years**	Last 5 Years	Last 10 Years	**Last 15 Years**
MSCI:ACWI	(15.66)	(20.18)	(15.75)	**6.21**	7.00	8.76	**4.80**
Russell:3000 Index	(16.70)	(21.10)	(13.87)	**9.77**	10.60	12.57	**8.36**
Russell:3000 Growth Index	(20.83)	(28.15)	(19.78)	**11.84**	13.63	14.41	**10.40**
Russell:3000 Value Index	(12.41)	(13.15)	(7.46)	**6.82**	7.01	10.39	**6.06**
MegaCap							
Russell:Top 50	(18.12)	(22.10)	(10.98)	**13.03**	13.23	13.38	**8.89**
Russell:Top 200	(16.61)	(20.73)	(11.46)	**11.50**	12.15	13.39	**8.79**
Russell:Top 200 Growth	(20.89)	(27.45)	(16.17)	**14.65**	15.64	15.70	**11.44**
Russell:Top 200 Value	(10.89)	(11.02)	(5.10)	**6.92**	7.60	10.47	**5.78**
Large Cap							
S&P:500	(16.10)	(19.96)	(10.62)	**10.60**	11.31	12.96	**8.54**
Russell:1000 Index	(16.67)	(20.94)	(13.04)	**10.17**	11.00	12.82	**8.51**
Russell:1000 Growth	(20.92)	(28.07)	(18.77)	**12.58**	14.29	14.80	**10.67**
Russell:1000 Value	(12.21)	(12.86)	(6.82)	**6.87**	7.17	10.50	**6.10**
MidCap							
S&P:400 Mid Cap	(15.42)	(19.54)	(14.64)	**6.87**	7.02	10.90	**8.05**
Russell:Midcap Index	(16.85)	(21.57)	(17.30)	**6.59**	7.96	11.29	**7.77**
Russell:Midcap Growth	(21.07)	(31.00)	(29.57)	**4.25**	8.88	11.50	**8.21**
Russell:Midcap Value	(14.68)	(16.23)	(10.00)	**6.70**	6.27	10.62	**6.91**
Small Cap							
S&P:600 Small Cap	(14.11)	(18.94)	(16.81)	**7.30**	7.20	11.26	**8.03**
Russell:2000 Index	(17.20)	(23.43)	(25.20)	**4.21**	5.17	9.35	**6.33**
Russell:2000 Growth	(19.25)	(29.45)	(33.43)	**1.40**	4.80	9.30	**6.80**
Russell:2000 Value	(15.28)	(17.31)	(16.28)	**6.18**	4.89	9.05	**5.58**
Russell:Microcap	(18.96)	(25.11)	(30.73)	**5.05**	4.55	9.04	**5.16**
Non-US Equity							
MSCI:ACWI ex US	(13.73)	(18.42)	(19.42)	**1.35**	2.50	4.83	**1.58**
MSCI:EAFE	(14.51)	(19.57)	(17.77)	**1.07**	2.20	5.40	**1.42**
MSCI:EAFE Growth	(16.88)	(26.81)	(23.76)	**1.32**	3.47	6.29	**2.53**
MSCI:EAFE Value	(12.41)	(12.12)	(11.95)	**0.18**	0.52	4.25	**0.12**
MSCI:EAFE Small Cap	(17.69)	(24.71)	(23.98)	**1.12**	1.72	7.18	**2.84**
MSCI:EM	(11.45)	(17.63)	(25.28)	**0.57**	2.18	3.07	**2.00**
Fixed Income							
Blmbg:Aggregate	(4.69)	(10.35)	(10.29)	**(0.93)**	0.88	1.54	**3.26**
Blmbg:TIPS	(6.08)	(8.92)	(5.14)	**3.04**	3.21	1.73	**3.92**
Blmbg:Long Gov/Credit	(12.27)	(21.88)	(20.14)	**(2.32)**	1.03	2.63	**5.35**
Blmbg:Long Credit A	(12.34)	(22.06)	(21.17)	**(2.66)**	0.65	2.93	**4.94**
Blmbg:HY Corp Cash Pay	(9.84)	(14.20)	(12.79)	**0.22**	2.11	4.47	**5.79**
Blmbg:Muni 1-10 Yr	(0.84)	(5.55)	(5.39)	**0.21**	1.32	1.79	**3.05**
Blmbg:Glb Agg xUSD	(11.01)	(16.49)	(18.78)	**(5.07)**	(1.75)	(1.06)	**1.42**
Blmbg:Glb Agg xUSD Hdg	(4.01)	(7.90)	(7.75)	**(1.36)**	1.30	2.66	**3.40**
JPM:EMBI Plus	--	--	--	**--**	--	--	**--**
Other Assets							
Blmbg:Commodity TR Idx	(5.66)	18.44	24.27	**14.34**	8.39	(0.82)	**(1.77)**
S&P GSCI	2.01	35.80	45.05	**14.69**	11.67	(1.83)	**(3.05)**
S&P:Gold Spot Price Ix	(7.51)	(1.16)	2.02	**8.53**	7.79	1.20	**7.05**
FTSE:NAREIT Equity Index	(17.00)	(20.20)	(6.27)	**4.00**	5.30	7.39	**5.77**
Alerian:MLP Index	(7.38)	10.04	4.33	**0.07**	(0.29)	0.74	**3.69**