

MONTHLY ECONOMIC UPDATE

August 2022

MONTHLY QUOTE

“The intelligent investor is a realist who sells to optimists and buys from pessimists.”

- Benjamin Graham

MONTHLY TIP

As you retire, look at the changes in your expenses. Will your mortgage soon be paid off? What business-related expenses will disappear, and what new expenses will emerge? This may matter greatly in your retirement strategy.

THE MONTH IN BRIEF

U.S. Markets

Stocks posted big numbers in July, erasing some of their first-half losses. Investor sentiment was lifted by receding inflation and recession worries and a better-than-expected start to the second quarter earnings season.

The Dow Jones Industrial Average gained 6.73 percent, while the Standard & Poor’s 500 Index rose 9.11 percent. The Nasdaq Composite led, picking up 12.35 percent.¹

Hopeful Signs

Stocks have been under pressure all year from rising inflation and slowing economic growth. There weren’t many signs in July that suggested either inflation had cooled or that the economy was rebounding. Nevertheless, investors saw falling energy prices and persistent strength in the labor market as hopeful signs that any economic downturn may not be as severe as some expect.

Earnings Help Rally

Investor sentiment improved further as earnings season got underway in the back half of the month. This gathering optimism was not a result of exceptional earnings results. Rising enthusiasm was perhaps more attributable to the fact that earnings were not nearly as weak as many had feared. Companies painted a picture of a reasonably healthy consumer and businesses effectively navigating their inflation and supply chain challenges.

Big Week of Data

The month of July culminated in perhaps the most critical week of the summer for the market, with investors awaiting information on corporate earnings, a Fed meeting decision on interest rates, and the release of an initial estimate of the second quarter GDP.

Investors Impressed

Earnings came out of the gate a bit shaky as a big box retailer missed earnings and guided future earnings estimates lower. However, subsequent earnings reports from big technology companies impressed investors. Markets were further relieved by the Fed's decision to hike rates by 75 basis points and Fed Chair Powell's comment that the pace of future rate hikes may slow.

Investors shrugged off a negative second quarter gross domestic product report as positive earnings surprises drove stocks higher into the close of the month.

Sector Scorecard

All 11 sectors posted gains for the month, including Communications Services (+3.87 percent), Consumer Discretionary (+18.44 percent), Consumer Staples (+3.20 percent), Financials (+7.19 percent), Health Care (+3.24 percent), Industrials (+9.50 percent), Materials (+6.15 percent), Real Estate (+8.52 percent), Energy (+9.66 percent), Technology (+13.45 percent), and Utilities (+5.45 percent).²

What Investors May Be Talking About in August

Historically, August has been positive for stocks, with an average return of 0.7 percent for the month. August also has more positive monthly performances (55) than negative (39).³

But August is also known for unexpected national and world events that have moved the markets in unexpected ways. Events that have occurred in August include the Asian currency crisis in 1997, the Long-Term Capital Management collapse in 1998, the downgrade of U.S. debt in 2011, and China's currency crisis in 2015.

During the month, the government will release a string of economic reports to give the Fed fresh insight into the economy for its late September meeting. After September, the Fed only has two scheduled meetings for the rest of 2022—one in early November and one in mid-December.

What Happens When There Are No Beneficiaries?

Where do those accounts and policies end up?

Some accounts have no designated beneficiary. Rarely, the same thing occurs with insurance policies. This is usually an oversight. In exceptional circumstances, it is a choice. What happens to these accounts and policies when the original owner dies?

The investment or insurance firm gets the first chance to determine what happens. On many retirement plans, for example, a spouse is often the default beneficiary, even if not named on a beneficiary form. If the deceased has no spouse, then the plan assets may just become part of that person's estate. Brokerage accounts without any designated beneficiaries are also poised to become part of the estate of the decedent. The next stop for these assets could be probate.⁴

The state may end up deciding where the assets go when beneficiary forms are blank. If the deceased failed to name account or policy beneficiaries but had a valid will or other valid estate documents, this will influence the path from here – but it may not exempt the assets from probate court.

If no legally valid estate documents exist, then the deceased party dies intestate, and the state determines the destiny for the assets. Most states go by the same ladder of potential inheritors – surviving spouse at the top, then kids, then grandkids, then parents, grandparents, siblings, nephews or nieces. If absolutely no legitimate heir can be found, then the assets become property of the deceased's state of residence.⁵

What about life insurance policies? A life insurance policy usually has at least two levels of designated beneficiaries, and it is rare when a policyholder outlives them and even rarer when a policy has none. In such a circumstance, the proceeds of the life insurance policy become part of the estate of the policyholder upon the policyholder's death.⁶

Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

What if a person simply lacks possible heirs, or sees no worthy heirs? Occasionally, this happens. Some people remain single for life, and others are estranged from relatives or heirs who would otherwise be beneficiaries.

A person in this situation has a choice: charity. Perhaps a charitable or non-profit organization deserves the assets. Perhaps a college or university would be a worthwhile destination for them. Choices exist, and those who are single can explore them as they consider their estate.

The Fed

Fed officials agreed to a 0.75 percentage point hike in the federal funds rate, acknowledging that the economy has slowed since the Federal Open Market Committee in June.⁷

In a post-meeting press conference Fed Chair Powell said that future rate hikes would be made on a meeting-by-meeting basis and that it may become appropriate to slow the pace of future interest rate hikes.⁷

MARKET INDEX Y-T-D CHANGE July 2022

MARKET INDEX	Y-T-D CHANGE	July 2022
DJIA	-9.61%	6.73%
NASDAQ	-20.80%	12.35%
S&P 500	-13.34%	9.11%

BOND YIELD Y-T-D July 2022

BOND YIELD	Y-T-D	July 2022
10 YR TREASURY	1.13%	2.64%

Sources: Yahoo Finance, July 31, 2022.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

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CITATIONS:

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