From the desk of GS Wealth Management

MONTHLY ECONOMIC UPDATE

July 2022

THE MONTH IN BRIEF

U.S. Markets

Stock prices were lower in June as recession talk prompted investors to manage risk in their portfolios.

The Dow Jones Industrial Average lost 6.71 percent, while the Standard & Poor's 500 Index fell 8.39 percent. The tech-heavy Nasdaq Composite dropped 8.71 percent.[1]

Focus on Inflation

Markets grappled this month with an uncertain economic outlook. After a descent in the first half of June, markets were further rattled by the May inflation report which showed an 8.6 percent increase, year-over-year, in the Consumer Price Index (CPI). Led by a 34.6 percent increase in energy prices and a 10.1 percent rise in food prices, making this the highest rate of increase since December 1981.[2]

The unwelcome CPI number raised concerns that the Fed would need to become more aggressive with its rate hikes, making the prospect of a recession more likely.

Fed Raises Rates

Stocks briefly rallied after the Fed announced a hike in short-term interest rates of 75 basis points. All Fed members said they expected rates to rise to at least 3 percent by year-end, with half anticipating that rates may rise to 3.375 percent.[3]

Powell's Commitment

On June 22, Fed Chair Powell told Congress that the Fed was committed to combating inflation. Stocks surged in the third week of the month on the premise that an economic slowdown may allow the Fed to be less aggressive with future rate hikes. But the enthusiasm faded in the final days of trading

MONTHLY QUOTE

"Golf is deceptively simple and endlessly complicated; it satisfies the soul and frustrates the intellect. It is at the same time rewarding and maddening – and it is without a doubt the greatest game mankind has ever invented."

- Arnold Palmer

MONTHLY TIP

New parents can sometimes spend a little too much on cute and trendy stuff, Here's a test: will the item improve the quality of care for your baby? If not, leave it at the store.

as choppy price action led to declines to close out the month.

Sector Scorecard

All industry sectors were lower in June, with declines in Communications Services (-9.82 percent), Consumer Discretionary (-11.04 percent), Consumer Staples (-3.08 percent), Energy (-17.91 percent), Financials (-11.14 percent), Health Care (-3.02 percent), Industrials (-7.77 percent), Materials (-14.41 percent), Real Estate (-7.64 percent), Technology (-9.48 percent) and Utilities (-5.65 percent).[4]

What Investors May Be Talking About in July

Earnings season begins in early July, providing investors with key insights into the health of American consumers. Companies will also communicate how they are navigating an increasingly challenging economic landscape.

Since the start of 2022, stocks have become less expensive on the basis of their price/earnings (P/E) ratios. When the stock market hit an all-time high on January 3, 2022, the forward P/E ratio for the S&P 500 index was 21.4. The 25-year average P/E sits at 16.5, for the period ended May 12, 2022. At the end of June 2022, the average forward P/E was 15.9.[5,6]

Each quarter, the degree to which the stock market responds to corporate earnings varies. But as investors grapple with a cloudy outlook, company reports over the next four to six weeks may serve as an important barometer for measuring the nation's economic health and evaluating stock prices.

Why Don't All Affluent People Become Wealthy?

Perception, hesitation, & poor decisions are factors

Why do some people let their potential for lifetime wealth slip away? Some people are better off economically at 30 or 40 than they are at 50 or 60. In some cases, fate deals them a bad hand. In other cases, bad decisions and inaction are to blame.

Some buy depreciating assets instead of allowing assets to appreciate. They rack up debt and live beyond their means. What are they spending so much on? It isn't just consumer staples. It's not unusual for a family to "keep up with the Joneses."

Contrary to the bumper sticker, the person who dies with the most toys does not necessarily win. In fact, that person may leave a pile of debt and little else behind. Today's hottest cars, clothes, flat screens, phones, and tablets may be tomorrow's junk and clutter.

Some never prioritize a retirement strategy. For many, there are opportunities to invest, whether it be through a traditional individual retirement account or a workplace retirement account. In the case of workplace retirement accounts, some companies offer matching contributions, which may be an opportunity to heighten your savings power. That being said, not everyone takes advantage of these opportunities.[7]

Once you reach age 72, you must begin taking required minimum distributions from your 401(k) plan and traditional IRA in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

Some never build up an emergency fund. Financial challenges will arise, and a rainy-day fund can help you meet them. Striving to save for that rainy day also helps to promote good, lifelong saving habits.

Some invest without a strategy. Chasing the recent hot trend is a behavior that may lead to frustration instead of financial freedom. Instant wealth seldom comes from an overnight winner. These ideas don't stop people from hazardously assigning an excessive portion of their assets to one investment.

Some accept a "forever middle class" mindset. Some people define themselves as middle class and accept that definition all their lives. The danger is that this can amount to a kind of psychological barrier, a sense that "this is it" and that "getting rich" is for others.

Behavior & belief may count as much as effort. It takes some initiative to create lifetime wealth from present-day affluence, but a person's outlook on money (and view of its purpose) can influence that effort – for better or worse.

The Fed

The Federal Reserve announced a 0.75 percent hike in the federal funds rate. It was the biggest rate increase since 1994.[8]

The announcement was made following the June 14–15 meeting of the Federal Open Market Committee (FOMC). The FOMC also indicated new rate projections, showing that all members expect rates to rise to at least 3.0 percent by year-end and half the members expecting rates to rise to 3.375 percent.

The 75-basis-point rate increase was higher than earlier Fed guidance of a 50-basis-point increase and a response to recent inflation data and rising inflationary expectations.[8]

MARKET INDEX	Y-T-D CHANGE	June 2022
DJIA	-15.31%	-6.71%
NASDAQ	-29.51%	-8.71%
S&P 500	-20.58%	-8.39%

BOND YIELD	Y-T-D	June 2022
10 YR TREASURY	1.46%	2.97%

Sources: Yahoo Finance, June 30, 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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