

MONTHLY ECONOMIC UPDATE

June 2022

MONTHLY QUOTE

“Only when the tide goes out do you discover who’s been swimming naked.”

- Warren Buffett

MONTHLY TIP

If you are getting married and want to buy a home, consider setting up a wedding registry that collects money specifically for a down payment.

THE MONTH IN BRIEF

U.S. Markets

Stocks were mixed in May as a powerful rally in the final week of trading helped recoup losses from earlier in the month.

The Dow Jones Industrial Average picked up 0.04 percent, while the Standard & Poor’s 500 Index added 0.01 percent. The Nasdaq Composite fell 2.05 percent.¹

It’s All About the Fed

The month began on a solid note as stocks rallied following the Fed’s announcement of a 50-basis-point hike in the federal funds rate. The market was relieved to hear comments from Fed Chair Jerome Powell, who said that a 75-basis-point increase was not actively being considered.

This rally lost momentum as investors reassessed the Fed’s commitment to a tighter monetary policy and digested some economic news that fanned inflation fears.

Focus Moving from Inflation?

Over the course of the month, inflation concerns diminished slightly, relative to economic growth worries. Consumer price inflation data showed prices rising at a pace near 40-year highs, but markets responded well, perhaps because the pace of price increases was down from the previous month.²

Inflation fears were further soothed later in the month when the Personal Consumption Expenditures Price Index, the Fed’s preferred measure of inflation, rose at a slower rate than markets had expected.³

Mixed Signals on Economic Growth

Economic growth concerns moved to the forefront due, in part, to weak economic data out of China. Disappointing earnings from major U.S. retailers also heightened fears about domestic growth. But upbeat news from several mid-size and discount retailers suggested the American consumer remained healthy.

Fed Sparks Rally

The May 25 release of the Federal Open Market Committee (FOMC) meeting minutes ignited the sharp rally in stock prices.

To investors, the meeting minutes suggested that the Fed was unlikely to pursue a more aggressive tightening stance. Investor sentiment was also lifted by comments from Fed officials who indicated that rate hikes could take a pause after the expected June and July hikes.

Sector Scorecard

Industry sectors that managed to post gains in May included Communications Services (+1.9 percent), Energy (+16.03 percent), Financials (+2.78 percent), Health Care (+1.49 percent), Materials (+1.18 percent), and Utilities (+4.31 percent). The remaining sectors moved lower, with losses in Consumer Discretionary (-5.12 percent), Consumer Staples (-4.08 percent), Industrials (-0.46 percent), Real Estate (-5.11 percent), and Technology (-0.69 percent).⁴

What Investors May Be Talking About in June

The U.S. dollar has been strengthening against other currencies all year. The U.S. Dollar Currency Index, which tracks the dollar's value against a basket of major international currencies, has risen about 8 percent since the start of the year.⁵

The value of the dollar is closely watched because roughly 40 percent of the aggregate earnings of S&P 500 companies come from overseas sales.⁶

A strong dollar helps U.S. shoppers buy imported products at lower prices, but it also makes U.S. exports more expensive to overseas customers, which may show up in second-half company results.

The Behavior Gap and Your Financial Health

How might it affect you?

“It turns out my job was not to find great investments but to help create great investors,” writes Carl Richards, author of “The Behavior Gap.” From increasing our budget mindfulness to taking a steadier approach to investing, Richards has drawn attention to how our unexamined behaviors and emotions can be to our detriment when it comes to living a happy and financially sound life. In many cases, we make poor financial decisions when experiencing panic or anxiety due to personal or widespread events. ⁷

The Behavior Gap Explained. Coined by Richards, “the behavior gap” refers to the difference between a wise financial decision versus what we decide to do. Many people miss out on higher returns because of emotionally driven decisions, creating a behavior gap between their lower returns and what they could have earned.

Excitement When Stocks Are High. Whether in a bull market or witnessing the hype from a product release, many investors may feel tempted to increase their risks or attempt to gain from emerging investments when stocks are high. This can lead to investors constantly readjusting their portfolios as the market experiences upswings.

Fear When Stocks Are Low. In response to market volatility, investors may feel the need to choose more secure investments and avoid uncertain or seemingly unsafe investments. When stocks are low, a typical response may be to sell and effectively miss out on potential long-term gains.

Short-Term Anxiety and Focus. As humans, viewing aspects of our lives through the lenses of current circumstances is normal. However, one emotional response to any event is letting the moment consume us. Many may find it difficult to think long-term and remember. However, making a rash decision can inhibit the long-term benefit of maintaining a balanced perspective without reactionary behavior.

The market can go up or down at any given point, or it can remain the same. One thing we can control is how we handle our financial strategy. Remembering the likelihood of recovery over time — and the market’s nearly inevitable up-and-down movement — can provide a more logical angle to calm the nerves.

If you’re experiencing financial anxiety in response to the markets, take a breath and remember the potential for long-term gains. Of course, you can and should always reach out to your financial professional for further clarification.

The Fed

At its May FOMC meeting, the Federal Reserve raised interest rates by half a percentage point. The Fed governors also announced that they would begin to scale back the Fed's \$9 trillion balance sheet by \$95 billion per month.

In a post-meeting press conference, Fed Chair Jerome Powell also said that the FOMC was not actively considering a 75-basis-point hike, although there may be multiple 50-basis-point hikes in the coming months.⁸

MARKET INDEX	Y-T-D CHANGE	May 2022
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DJIA	-9.21%	0.04%
NASDAQ	-22.78%	-2.05%
S&P 500	-13.30%	0.01%

BOND YIELD	Y-T-D	May 2022
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10 YR TREASURY	1.33%	2.84%
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Sources: Yahoo Finance, May 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.

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CITATIONS:

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2. BLS.gov, May 11, 2022
3. BEA.gov, May 27, 2022
4. SectorSPDR.com, May 2022
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7. BehaviorGap.com, May 16, 2022
8. CNBC.com, May 4, 2022