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Markets Update

August 2022

"We will keep at it until we are confident the job is done"

This was the concluding sentence of a short and pointed speech by Federal Reserve President Jerome Powell on August 26th at the Jackson Hole Economic Symposium. This message brought about an abrupt reversal to the recent positive momentum of the equity markets in July and early August. The S&P 500 (-4.1%) reeled once again in anticipation of continued aggressive interest rate hikes - irrespective of the near-term economic consequences. Bond markets were already trending lower, with yields across the Treasury curve once again heading higher after a brief reprieve in July. The result was the U.S. fixed income core benchmark (Aggregate Index -2.8% in August) re-entered double-digit negative return territory year to date.

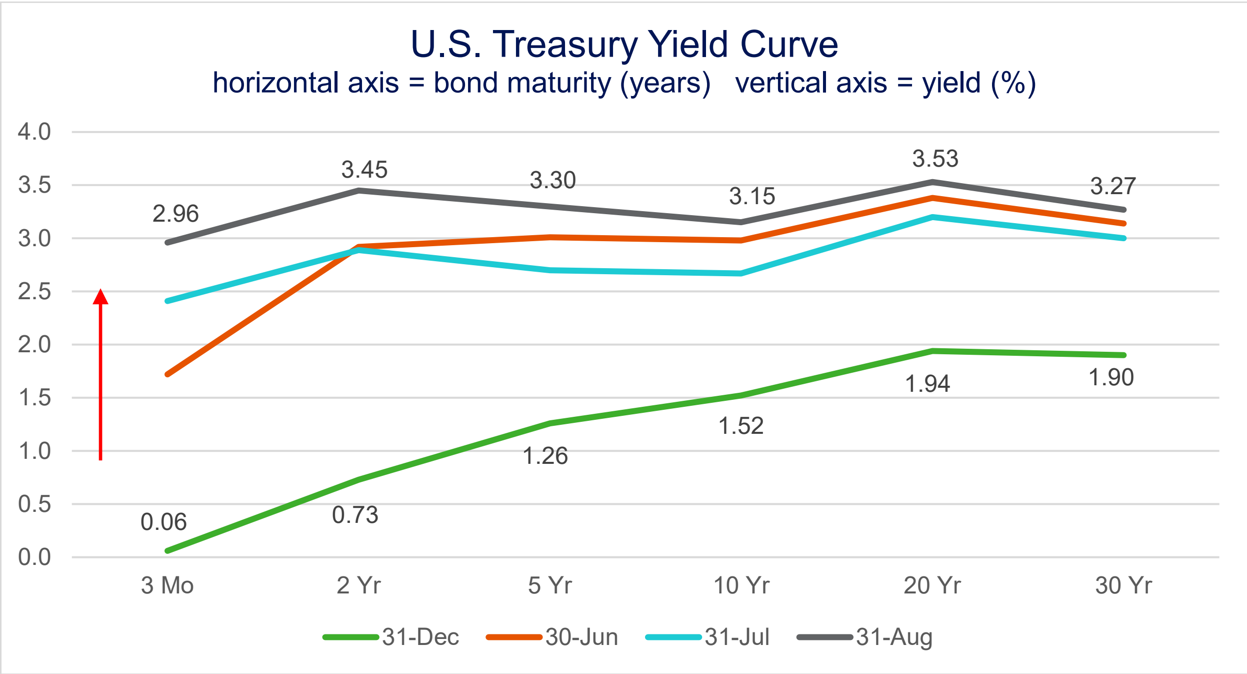
	August	YTD 2022
EQUITIES		
S&P 500	-4.1%	-16.1%
Russell 3000	-3.7%	-16.9%
Russell 1000	-3.8%	-16.9%
Russell 1000 Growth	-4.7%	-23.2%
Russell 1000 Value	-3.0%	-9.8%
Russell Midcap	-3.1%	-16.5%
Russell 2000	-2.0%	-17.2%
Russell 2000 Growth	-0.9%	-22.3%
Russell 2000 Value	-3.2%	-12.2%
MSCI EAFE	-4.7%	-19.6%
MSCI Emerging Markets	0.4%	-17.5%
FIXED INCOME*		
U.S. Aggregate	-2.8%	-10.8%
U.S. Treasury	-2.5%	-10.0%
U.S. 1-3 Year Treasury	-0.8%	-3.4%
U.S. TIPS	-2.7%	-7.5%
U.S. Intermediate Gov/Credit	-2.0%	-7.1%
U.S. Gov/Credit	-2.6%	-11.5%
U.S. Long Gov/Credit	-4.4%	-22.5%
U.S. Investment Grade Credit	-2.8%	-13.7%
U.S. High Yield	-2.3%	-11.2%
Global Aggregate (USD)	-3.9%	-15.6%
Emerging Markets (USD)	-0.5%	-15.8%
COMMODITIES		

Bloomberg Commodity	0.1%	23.6%

*Source: S&P, Russell, MSCI, Bloomberg. *Bloomberg Indices*

Fixed Income

With no Federal Open Market Committee meeting in August, the federal funds rate remained in the range of 2.25% - 2.50%. Regardless, short term rates trended higher in anticipation of another aggressive rate hike in September and with the possibility that the benchmark rate could close the year close to 4%. While 2-year yields remain inverted relative to 10-year yields, the longer dated portion of the Treasury yield curve also moved higher during the month, indicative not only of the overall hawkishness of Chairman Powell's speech, but also the realization that a higher-for-longer interest rate regime may be necessary to tame inflation.



Source: U.S. Department of the Treasury

During the month of August all major bond sectors fell into negative territory. The return dispersion between U.S. Treasuries (-2.5%), investment grade corporates (-2.8%) and high yield corporates (-2.3%) was modest. Long duration bonds (-4.4%) suffered more on higher long-term yield expectations, while emerging market debt – among the worst performers year-to-date – experienced a relatively more stable month (-0.5%).

Equities

The S&P 500 Index sits roughly 8% above its mid-June nadir. In the wake of more hawkish Fed rhetoric and a mixed economic outlook, large cap growth stocks (-4.7%) underperformed large cap value stocks (-3.0%) for the month. Surprisingly, small cap growth stocks (-0.9%) fared better than small cap value stocks (-3.2%) possibly due to the significant discounted valuation after a tough first half. Interestingly we saw a resurgence of several "meme" names in the month, such as Bed Bath and Beyond. That stock spiked more than 300% at one point in August with little fundamental rationale before cratering back to earth again by month end. Meanwhile, developed non-U.S. stocks (-4.7%) struggled as the outlook in Europe continues to weaken, while emerging markets managed to eke out a small positive return in the month (0.4%) due in part to fresh government stimulus in China, which helped support Asian markets.

Looking Ahead

As we noted in last month's discussion, following the bounce-back month in July, "as long as the Fed is actively trying to slow economic activity, elevated volatility is likely to continue". This was certainly the case in the second half of August. Just like the Fed, markets are awaiting data and news to validate views on the likelihood of recession and the path of interest rates and inflation. Depending on the incoming data, we either have risk on, or risk off days.

Still, the Fed does for now seem resolute in its objective of taming pricing pressures through tighter financial conditions and is clearly communicating its commitment to this priority. Ultimately, the Fed's approach here is the best path back to a life with lower prices, sustainable growth, and, importantly, stronger markets. The "when" for all these ultimately positive outcomes remains the great unknown.

We hope you had a great Labor Day weekend with family and friends!

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