Segal Marco Advisors

333 West 34th Street
New York, NY 10001-2402
T 212.251.5000
F 212.251.5490
segalmarco.com

Markets Update

June 2022

Nowhere to Hide

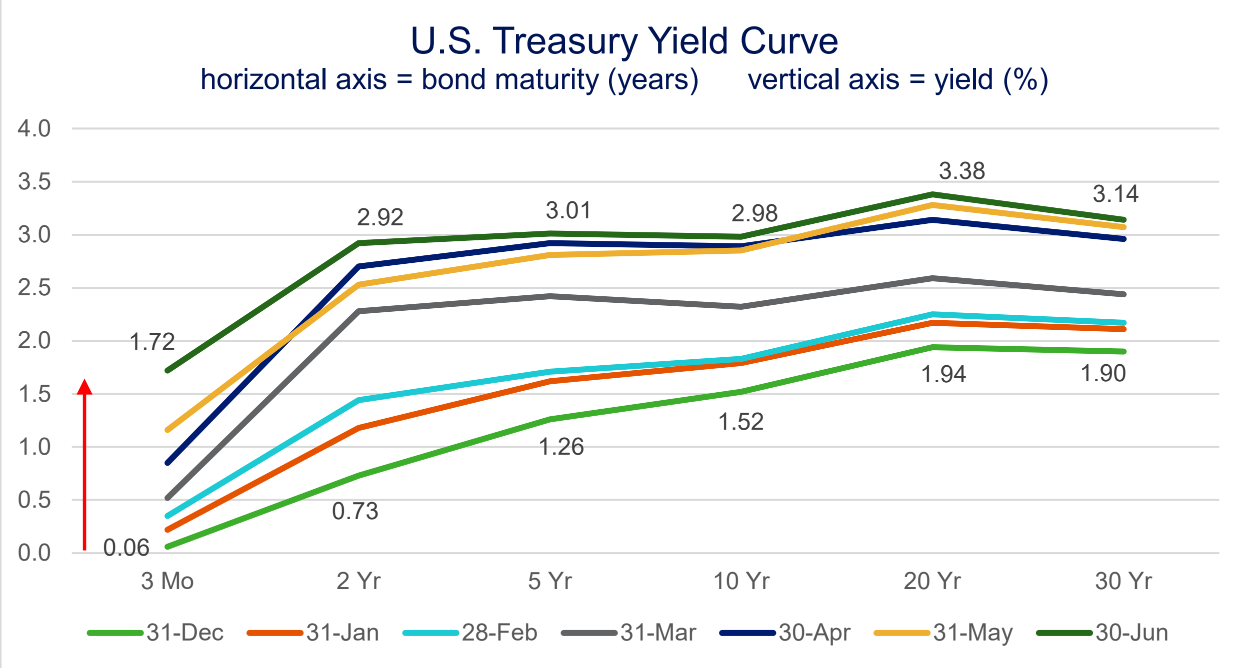
If this past spring was a bear market fling, the start of summer made things official. The breadth and depth of losses across markets in June was striking and tied a bow on the worst first half of a calendar year for the S&P 500 since 1970. The markets continue to react to headline CPI, at its highest level since 1981 and the increases in interest rates. Fixed income did little to soften the blow because of the dramatic rise in rates, with core bonds down by more than -10% year-to-date. Even commodities turned red for the month, although that may be a harbinger for constructive developments for inflation and markets.

	June	YTD 2022
EQUITIES		
S&P 500	-8.3%	-20.0%
Russell 3000	-8.4%	-21.1%
Russell 1000	-8.4%	-20.9%
Russell 1000 Growth	-7.9%	-28.1%
Russell 1000 Value	-8.7%	-12.9%
Russell Midcap	-10.0%	-21.6%
Russell 2000	-8.2%	-23.4%
Russell 2000 Growth	-6.2%	-29.5%
Russell 2000 Value	-9.9%	-17.3%
MSCI EAFE	-9.3%	-19.6%
MSCI Emerging Markets	-6.6%	-17.6%
FIXED INCOME*		
U.S. Aggregate	-1.6%	-10.3%
U.S. Treasury	-0.9%	-9.1%
U.S. 1-3 Year Treasury	-0.6%	-3.0%
U.S. TIPS	-3.2%	-8.9%
U.S. Intermediate Gov/Credit	-1.1%	-6.8%
U.S. Gov/Credit	-1.6%	-11.0%
U.S. Long Gov/Credit	-3.0%	-21.9%
U.S. Investment Grade Credit	-2.6%	-13.8%
U.S. High Yield	-6.7%	-14.2%
Global Aggregate (USD)	-3.2%	-13.9%
Emerging Markets (USD)	-4.6%	-17.1%
COMMODITIES		
Bloomberg Commodity	-10.8%	18.4%

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

Fixed Income

The Federal Reserve hiked rates for a third time this year – this time by 0.75% - which is now reflected in short term Treasury yields, but intermediate and longer-term yields were rather stagnant month over the month. Reflecting increasing acceptance of slower growth in the face of higher rates, we saw a ferocious rate rally the last few weeks of June, with the 10-year yield topping out at nearly 3.5% mid-month before closing the month just below 3.0%. A positive for the total returns of bonds in the second half of 2022 and into 2023 is the yield of the Aggregate Index is up approximately 2% in the first six months of the year.



Source: U.S. Department of the Treasury

Along the same narrative of growth concerns, high yield bonds were down -6.7% in the month. Interestingly, Treasury Inflation Protected Securities (TIPS) fell -3.2% in the month and have generated significant negative returns year-to-date, reflecting uncertainty on future growth and inflation. It will be very interesting to watch this tug-of-war in the second half of the year and the impact on future decisions for the Fed.

Equities

After a respite in May, the month of June was negative across all equity markets around the globe apart from China. June saw a slight improvement in performance of growth stocks relative to value stocks, aided in part by the rally in bond yields in the latter half of the month, but more dramatically by a sell-off in energy stocks on the back of lower spot oil prices later in the month. Energy stocks were down approximately -17% for the month, while maintaining gains over +30% year-to-date. Developed markets and emerging market equities continue in negative territory although emerging markets are now outperforming U.S. markets year-to-date (-17.6% vs -20%). Current valuations now reflect a decline in the forward earnings outlook (P/E of 17x vs P/E of 19x at Q1 and 21x at year end). The question for investors is, as earnings reports roll in over the coming weeks, does this reflect enough of a decline in valuations to warrant a buying opportunity?

Alternatives

Real estate markets have benefited from the inflationary environment and the continued strength in many sub sectors. While 2022 has seen a slowing in the overall numbers, driven by decreasing rates of appreciation (relative to steady income), several areas have continued to perform well, namely multi-family and industrials. Returns in April and May were down relative to the first quarter of 2022, but still positive year to date with the NFI daily priced index returning 6.85% through May.

While we will not have private equity valuations for the second quarter for a bit, we anticipate that based on the public markets performance year to date there may be a downward trajectory to pricing. Private credit market pricing will likely also reflect the difficult environment for public fixed income markets and the potential for slowing growth. However, the floating rate nature of many of those loans will be beneficial. This lag in private valuations however should benefit most Plans relative to the rapid decline of public market returns we have experienced.

Looking Ahead:

Even with historically low consumer confidence survey numbers, given the positive fundamentals of many parts of the economy, it may be hard to fathom that the second half will repeat the double-digit negative performance of the public markets we experienced in the first half of 2022. That being said, the question remains how much of the growth slowdown has the equity market priced in? As we discussed in the equity review, earnings reports in the next several weeks should give us a bell weather look at the second half environment. Other areas to watch for clues to a bottom include; continued signs of inflation easing, some positive news on the Ukraine crisis, and stability in supply chain issues (maybe helped by China reopening).

We hope you had a great 4th of July weekend.

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