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Market Update: May 2022

Global equity markets were exceptionally volatile in May, as traders struggled to evaluate a complicated economic backdrop. Stocks ultimately ended the month roughly flat, but remain down by double-digits year-to-date.

> **It's a violently flat market out there.**
>
> **Nicholas Jasinski – Barron's 5/31/22**

U.S. technology and growth-oriented companies have seen their stock values decline by more than 20% over the past five months. Their value-oriented counterparts, however, have fared much better with declines of less than five percent.

> **Many traders remain worried that the Federal Reserve's plans to raise interest rates aggressively could tip the U.S. economy into a recession.**
>
> **McCabe/Wallace/Osipovich – WSJ 5/31/22**

The S&P 500 Index, off almost 6% mid-month, rallied back from near bear market levels … defined as a drop of 20% from recent highs. The Index, which saw moves of two percent or more on eight of the 21 trading days, is still off nearly 13% year-to-date.

> **While painful, this year's sell-off has created an opportunity for investors to rebalance portfolios and ensure they are appropriately positioned for the coming macro environment.**
>
> **J.P. Morgan Asset Management, Market Insights 5/23/22**

The labor market in the U.S. is still tight, as job openings are close to record highs, and workers continue to quit their jobs at elevated rates. In April, 17 states reported record low unemployment rates. Overall, about two job openings are available for every person looking for work.

> **Low joblessness suggests the labor market, a pillar of the economy, is still running strong, despite volatility in stocks, bonds and other assets reflecting investor fears that the U.S. is headed toward an economic downturn.**

Cambon/Mena – WSJ 5/29/22

U.S inflation increased at an annualized rate of 8.3% in April, down from 8.5% in March. On a monthly basis, the consumer price index rose a seasonally adjusted 0.3% in April, although the core-price index (which excludes food and energy) increased 0.6% for the month.

> **Broadly, the report offered little evidence that inflation was cooling.**

Gwynn Guilford – WSJ 5/11/22

Spending by U.S. households increased for the fourth straight month in April, but the household savings rate fell to the lowest level in 14 years. The data, courtesy of the Commerce Department, suggests Americans are tapping savings to offset inflationary pressures.

> **We have finally reached the point where households are dipping into their $4 trillion of excess savings.**

Stephen Stanley, Amherst Pierpont – WSJ 5/27/22

Lower income shoppers appear to be spending more on less expensive items. Middle income and higher-income consumers seem less affected by inflationary headwinds, and they still have plenty of cash.

> **Excess savings are pretty significant. People kept it in cash and bank accounts. We've had a huge drawdown in the markets, but people's cash values are still above where they were pre-pandemic.**
>
> **Tendayi Kapfidze, U.S. Bank – WSJ 5/27/22**

According to the Congressional Budget Office, U.S. economic growth and inflation should cool later this this year and into 2023. Growth is projected to decline due to tighter monetary policy and reduced fiscal support. The CBO also expects supply disruptions to subside and energy prices to decline in the second half of 2022.

Home prices in the U.S. rose 18.8% last year, according to S&P Dow Jones Indices and CoreLogic. Relative to sales, the number of homes on the market remains very low. Accordingly, high demand and low supply have driven the average existing home price to a record high $391,200.

Mortgage rates have risen over two full percentage points in just six months. The housing market, a major battleground in the fight against inflation, has always been sensitive to movements in interest rates.

> **Higher mortgage rates, rising prices and strong housing demand probably can't coexist for very long. Here is guessing they won't.**
>
> **Justin Lahart – WSJ 5/20/22**

The Federal Reserve Bank of Atlanta calculated that the median American household needed 38.6% of its income to cover payments on a median-priced home in March. That is up from 32.6% at the end of 2021 … and the highest level since 2007.

According to Realtor.com, the supply of homes for sale jumped 9% at the end of May. Real estate brokerage Redfin also reported a significant rise in new listings during the four weeks ended May 15.

Rising mortgage rates have caused the housing market to shift, and now home sellers are in a hurry to find a buyer before demand weakens further.

Daryl Fairweather, Redfin Chief Economist – CNBC 5/26/22

Business surveys by S&P Global report that factories in major global economies continue to struggle with supply-chain disruptions, as well as rising wages and fuel costs.

The global economy faces a series of obstacles this year, ranging from Covid-19 lockdowns in China, soaring energy and food prices, Russia's invasion of Ukraine and a broadening drive by central banks to combat high inflation by increasing borrowing costs.

Hannon/Torry – WSJ 5/24/22

China's economy represented 18.1% of global gross domestic product in 2021 … behind the U.S. at 23.9%, but ahead of the 27 members of the European Union at 17.8%. United Nations data from 2020 has China accounting for nearly a third of global manufacturing output. More recently, however, China's economy has slowed considerably.

China's deceleration represents a double whammy for the global economy. The country isn't just a huge market for the rest of the world's goods, components and raw materials, but it is the manufacturing dynamo at the center of global trade.

Jason Douglas – WSJ 5/12/22

Shanghai authorities just lifted anti-Covid-19 restrictions, freeing most of the city's 25 million residents to leave their homes and go to work. The lockdowns lasted for more than two months and took a heavy economic toll. In April alone, retail sales fell 48% from a year earlier, and industrial production tanked 62% according to official statistics.

Looking into the future, China's demographic challenges are significant, as the working age population is projected to be nearly cut in half by the end of this century. *The big picture … China is projected to grow old before it gets rich*.

The more immediate concern is that China's economy doesn't produce enough jobs for its educated workforce. Youth unemployment has been steadily increasing over the past four years, with unemployment for 16-to-24-year-olds reaching 18.2% in April.

> **For the first time in 40 years, no major sector is undergoing liberalizing reforms. Without them, China's growth will suffer, and that will have global consequences.**

Zanny Minton Beddoes – The Economist 5/26/22

At the recent World Economic Forum in Davos, concerns focused on poorer, developing countries and their struggles with the "triple crises" of food, fuel, and finance. These crises are interrelated … and they have been intensified by Russia's invasion of Ukraine. High inflation and interest rates could push as many as 70 countries into default, while food shortages and supply-chain dislocations create unrest and humanitarian distress.

> **We are struggling to respond in a way that is commensurate with the scale of the crisis. For many developing countries, there simply is no money left in the kitty.**

Achim Steiner, UN Development Program – WSJ 5/24/22

So, what is the next shoe to drop? While financial crises typically originate with speculators using borrowed funds, much of that has already happened during the pandemic. For example, the economy has withstood liquidity problems with leveraged overnight borrowings in

Treasuries, losses from concentrated short positions on meme stocks, hedge fund blowups, and crypto disasters.

On the positive side, thanks to post-2008 reforms, our banking system is on solid ground. Still, most of the really big problems take a long time to develop … and they are usually discovered only after the economy is on the decline.

> **When the tide goes out you find out who was swimming naked, Warren Buffet memorably said. The tide's definitely gone out of the markets this year, but finance has come through with few problems. Is it possible that this time not many were skinny-dipping?**
>
> **I suspect there are plenty of underdressed bathers still to be exposed. I hope the crisis practice runs of the past two years mean there is less risk of Wall Street coming to a sudden stop.**

James Mackintosh – WSJ 5/29/22

Generationally high inflation and extreme daily market volatility have caused many investors to lose confidence in their financial strategies. But, reacting to the noise of the marketplace is a losing proposition. Stay focused on your planning framework, that's where you add value.

> **Although it may be tempting to react and make drastic changes, we'd suggest a great place to start is revisiting portfolio-level goals, related to time horizon and risk tolerance for clients.**

Ryan Barksdale, Vanguard – InvestmentStrategy 6/1/22

A recent survey found 76% of Americans felt overwhelmed by the thought of creating a financial plan. We would suggest there is no reason to be overwhelmed, as we can make the process quite easy and efficient. Let us know if we can be of any help.

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