Retirement Market RECAP Q2 2022

HANYS Benefit Services

More Inflation, more uncertainty make investors ask: What's next?

Asset prices faced substantial pressure in the second quarter as investors began to feel the pain of high inflation and hawkish monetary policy. Within the US, the S&P 500 fell 16.60% in Q2 and finished down 19.96% year to date (YTD). The S&P 500 had previously fallen into a bear market (20% decline from peak) on June 13. All component sectors of the S&P 500 saw losses; however, defensive sectors such as consumer staples and utilities held up relatively well in the second quarter and YTD. Energy, which saw a dramatic run up in Q1, declined in the second quarter but is still the only sector with positive attribution YTD.

Looking at the broader US equity market, large cap stocks once again outperformed small caps. Large caps tend to be better able to pass price increases on to consumers. However, the outperformance was relatively small, with the Russell 1000 (Large Cap) Index displaying a loss of 16.67% compared to a loss of 17.20% for the Russell 2000 (Small Cap) Index. Growth stocks (companies whose earnings are expected to outperform in the future) saw disproportionate losses compared to value stocks due to their heightened interest rate sensitivity.

> ***Inflation continues to pressure global economies, leading to declines in asset prices worldwide.***

Inflation continues to pressure global economies, leading to declines in asset prices worldwide. International equities, measured by the MSCI EAFE Index, saw a 14.51% decline in the second quarter and 19.57% decline YTD. Inflation within the Eurozone is comparable to that of the US, with a June report showing 8.6% and speculation of a July interest rate increase by the European Central Bank. However, the Eurozone has faced more direct headwinds as a result of the conflict in Ukraine, creating concerns over gas shortages and leading Germany to develop an industrial usage rationing plan.

Emerging markets, an asset class that has struggled relative to US counterparts for much of the past decade, was a relative outperformer within equity markets. The MSCI Emerging Markets Index saw a Q2 decline of 11.45% and a YTD decline of 17.63%. This relative outperformance was driven by China, which saw a 3.4% gain, driven by an easing of lockdown measures. China was a notable underperformer throughout 2021 with strict lockdown measures coupled with regulatory crackdowns on mega-cap stocks leading to equity market declines.

Fixed income, typically seen as a shock absorber within a portfolio, has uncharacteristically struggled throughout 2022. High and persistent inflation expectations erode the future value of coupon (interest) payments, which has led to an unprecedented selloff in fixed income markets this year. This can be seen most notably in long-term treasuries, in which a relatively low interest rate and a corresponding relatively low coupon payment are fixed for an extended period.

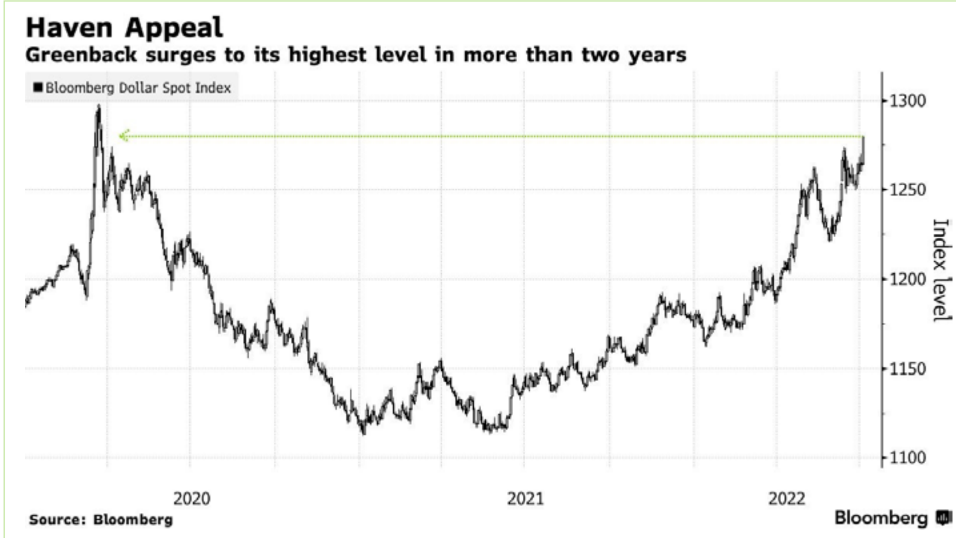
With a coupon payment that is lower than the newly issued rates and lower than inflation, the price of these instruments will inevitably lag. This can be seen in the performance of the Bloomberg Barclays Long Term US Treasury Index, down 11.93% in Q2 and 21.25% YTD. Global bonds have also struggled, measured by the Bloomberg Barclays Global Aggregate Bond Index, which experienced a Q2 decline of 8.26%, its worst quarter on record. However, bonds did begin to rally at quarter end, leading to a drop in yields and softening the blows seen in Q2.

Inflation, which was previously expected to peak in the spring, unexpectedly rose

For more information about HANYS Benefit Services, please contact
JORDAN ANDRÉ, CFP®
Investment Research Analyst, Retirement and Investment Services
800.388.1963 | jandre@hanys.org | hanysbenefits.com

in May, yielding an 8.6% measure. The Federal Reserve appears to be dedicated to its plan to lower inflation and restore price stability by raising interest rates on June 15 to levels not seen in almost 30 years. Fed Chair Jerome Powell has expressed a plan to continue quantitative tightening (QT) until inflation is "tamed" and a trend of decreasing inflation is achieved, even if doing so creates additional recessionary risk. QT focuses on increasing the Federal Funds rate, which makes borrowing more expensive, lowering demand. However, QT monetary policy is unable to directly inhibit supply-driven, commodity-based inflation, such as gas and food prices.

While the second quarter was undoubtedly a difficult one for investors, there may be good news on the horizon. According to *The Wall Street Journal*, "When the S&P 500 has fallen at least 15% in the first six months of the year, as it did in 1932, 1939, 1940, 1962, and 1970, it has risen an average of 24% in the second half according to Dow Jones Market Data." (Otani, 2022).



However, it is difficult to ignore the probability of a recession. The US dollar has seen its strongest level since March 2020 (see chart above), as "investors typically flock to the world's biggest reserve currency in times of distress…" (Yue Li & Fullen, 2022). Whether a recession does indeed take place is difficult to predict as the outcome depends on many factors. However, even in periods of discomfort, investors must remember the importance of long-term investing and avoid making rash decisions, even amid extreme market volatility.

Sources:

https://www.wsj.com/articles/markets-head-toward-worst-start-to-a-year-in-decades-11656551051

https://www.bloomberg.com/news/articles/2022-07-05/recession-fear-puts-dollar-on-course-for-biggest-gain-since-2020

EQUITY INDICES	3 MO	1 YR	3 YR	5 YR	FIXED INCOME AND RETIREMENT INDICES	3 MO	1 YR	3 YR	5 YR
S&P 500 TR USD	-16.10%	-10.62%	10.60%	11.31%	ICE BofA 3M US Trsy Note TR USD	0.12%	0.18%	0.68%	1.15%
Russell 3000 TR USD (Broad Market)	-16.70%	-13.87%	9.77%	10.60%	ICE BofA 1-3YR US Trsy TR USD	-0.50%	-3.30%	0.24%	0.94%
Russell 1000 TR USD (Large Cap)	-16.67%	-13.04%	10.17%	11.00%	BBgBarclays Long Term US Trsy TR USD	-11.93%	-18.45%	-2.94%	0.51%
Russell Midcap TR USD	-16.85%	-17.30%	6.59%	7.96%	BBgBarclays US Aggregate Bond TR USD	-4.69%	-10.29%	-0.93%	0.88%
Russell 2000 TR USD (Small Cap)	-17.20%	-25.20%	4.21%	5.17%	BBgBarclays US Treasury US TIPS TR USD	-6.08%	-5.14%	3.04%	3.21%
MSCI EAFE NR USD (Int'l Equity)	-14.51%	-17.77%	1.07%	2.20%	BBgBarclays High Yield Corp TR USD	-9.83%	-12.81%	0.21%	2.10%
MSCI Emerging Markets NR USD (E.M. Equity)	-11.45%	-25.28%	0.57%	2.18%	BBgBarclays Global Aggregate TR USD (Global Bond)	-8.26%	-15.25%	-3.22%	-0.55%

ICE BofAML – Intercontinental Exchange Bank of America Merrill Lynch; BBgBarc – Bloomberg Barclays; S&P 500 – Standard & Poors; MSCI – Morgan Stanley Capital International
Sources: Morningstar as of June 30, 2022

HANYS Benefit Services

CONTACT:
One Empire Drive, Rensselaer, NY 12144
P 800.388.1963
F 518.431.7601

SATELLITE OFFICE:
Melville: 245 Old Country Road, Melville, NY 11747
P 631.417.5913
F 518.431.7601

HANYSBENEFITS.COM