CWP | PRIVATE WEALTH MANAGEMENT

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Monthly Market Commentary

Welcome to the unofficial start of summer! We hope that you were able to enjoy the Memorial Day weekend with family and friends. For those of us residing in the northern states, take the time over the next three months to spend plenty of time spent outside, go golfing, attend a county fair, and of course grill out. We all know how fast these summers can fly by!

Weakness in global assets continued in May as both equities and bonds repriced due to the impact of the FED hiking rates and quantitative tightening to curtail inflation. The FED takes center stage in June to provide more guidance on current and future tightening. On the other hand, inflation is not showing any signs of a meaningful slowdown and remains a persistent problem while future economic growth is starting to show signs of a slowdown. Market participants are fearful that aggressive FED policy actions to tame inflation will have negative feedback on growth. Further, the latest employment growth numbers released in May continue to be strong with the labor supply still tight and no signs of wage pressure abating anytime soon. Given this backdrop, it will force the FED to remain hawkish for longer if they intend to bring inflation under control.

Looking at price action in equities so far this year, the extreme froth and speculative behavior seen in the last few years driven by excess liquidity and strong growth have dissipated substantially. A popular indicator of valuation called the "Buffet Indicator," which looks at the overall market cap to GDP, peaked at around 203% last year and has declined to approximately 170% at the end of May. Despite this decline, this indicator remains lofty relative to its long-term average. Equity valuations across various markets also remain elevated relative to longer term averages while some markets are starting to trade closer to their averages in the last 5 years. Looking forward, we believe as growth and earnings expectations are revised lower, the risk of further re-rating in valuations remains a risk that warrants caution and patience before taking a constructive approach on equities.