

Monthly Market Commentary

With the approaching Labor Day holiday, we salute the final month of summer. The back-to-school announcements remind us that now is the perfect time to enjoy a few last-minute summer activities. On a positive note, football season is right around the corner. While summer is often the season of choice, a combination of fall leaves, milder temperatures, and football seem to be a fair trade! However, as you and your family close out these summer months, we wish you a wonderful time.

After a challenging first half of the year, both equities and fixed income staged a relief rally in July recouping some of the losses for the year. Sentiment and positioning were extremely bearish in June, which has partly driven the rally so far. Fundamentally, the economy has seen a meaningful slowdown in growth over the same period with the FED hiking rates aggressively to curtail inflation. Second quarter GDP came in at -0.9% quarter-over-quarter annualized rate, which technically puts the USA in a recession (two consecutive quarters of negative growth). GDP slowed on a year-over-year basis as well and came in at 1.6% vs 3.5% prior. Inflation accelerated further to 8.6% in the second quarter vs 8% in the first quarter on a year-on-year basis. Recent price action is consistent with the market pricing in a FED pivot on its policy tightening path. However, we believe it is premature for us to take that view considering inflation remains high relative to the FED's goals as the economy appears poised for an actual recession. Having said that, we agree with the fact that some of the froth in the markets has been taken off in this bear market. Going forward, if a protracted recession materializes, we expect more pressure on valuations and equity risk premiums to move much higher as revenue and earnings are revised lower to reflect the macro environment. We are halfway through second quarter earnings and S&P 500 companies have reported 14% revenue growth and 6.9% earnings growth compared to 14% revenue and 11.4% earnings growth in the first quarter on a year-over-year basis. With revisions still to come on both revenues and earnings, maintaining a defensive exposure is ideal for now.

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