QUARTERLY MARKET COMMENT
Second Quarter 2022

ALEXANDER
FINANCIAL PLANNING

This past quarter may best be described by a Winston Churchill quote, "If you're going through hell, keep going." I think that kinda sums it up. As we progressed through the second quarter, inflation kept moving higher while the markets moved lower. Just like bears that come out of hibernation in the spring, the U.S. stock markets slipped into "bear" market territory (by definition down 20%) just before summer arrived on June 16th. This is the 15th bear market since 1928, and the worst Q2 and first half performance for U.S. equities since the 1970s. Value and dividend stock strategies performed significantly better than Growth strategies, which continue to be this year's worst performers. All sectors posted losses for Q2 and YTD except energy. It was up 31.84% YTD, but weakened in Q2, down 5.17%. Commodities also experienced a negative return for Q2 but finished the first half up 19.37%. Emerging markets were slightly less negative than developed countries. Some of this can be attributed to a very strong dollar in the first half of the year. Aside from the stock market's poor performance, the bond market continues to suffer posting its worst start to a year in history. On balance, the longer the maturity and the higher the quality, the greater the decline as noted in the chart below.

As bleak as this all may sound, the markets are reacting as expected to the economic conditions we find ourselves in. The only way out is through. The trifecta of challenges the global economy faced in the first quarter (the Russian/Ukraine conflict; surging inflation; and the Fed's rate hike plan) are still here. However, the order of importance has shifted and the #1 focus is now on getting inflation under control. Along with quantitative tightening (pulling $100 billion of cash out of circulation each month), the Fed has become more aggressive in raising interest rates. Instead of a 0.50% rate increase in June, it was 0.75% with the same expected in July and September. Other central banks have also begun to raise rates aggressively. One thing that many seem to agree on is that sharp price swings across all financial markets will continue.

Asset Index Category	2Q 2022 %	Year 2022 %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	-16.45	-20.58	9.33	10.76
S&P 400 Index-Mid-size Companies	-15.77	-20.16	5.37	9.19
Russell 2000 Index-Sm Companies	-17.49	-23.93	3.83	7.90
US Real Estate Funds	-15.81	-20.08	5.04	6.93
Gold	-7.62	-1.53	6.55	0.33
US Commodities	-4.39	19.37	9.48	-0.36
Global Real Estate Funds	-16.87	-20.93	2.57	4.84
MSCI EAFE-Developed International	-15.37	-20.97	-0.40	2.64
MSCI EM Index-Emerging Markets	-12.36	-18.78	-0.20	0.66
Barclays US Aggregate Bond Index	-4.69	-10.35	0.88	1.54
Long US Government Bond Index	-12.51	-22.22	-2.20	-1.41
Emerging Market Bond Index	-10.91	-17.57	-2.12	0.05

Lately, the "R" word (recession) is being tossed around like a hot noodle. We have abruptly switched from post-pandemic recovery (stimulus turned on) to batten the hatches, it's inflation (turn it off and take it away)! History has shown that it is rare for the Fed to orchestrate a "soft landing" where the economy slows enough to rein in inflation without causing a recession. They have taken more of a reactive stance to inflation data vs. being pro-active as they had been in the 1990s. The economy has taken an about-face from the torrid growth (GDP) in Q4 2021 of 6.9% to -1.6% in Q1 of 2022. While household and business balance sheets look healthy, there are signs that consumers are adjusting their spending given the high cost of energy. The lingering impact of Russia's invasion of Ukraine, Covid, and supply-chain fallout is still with us. Economic momentum may protect the U.S. from a recession near-term, but there is a growing consensus among economists that the economy is slowing.

At some point, the markets will resume an upward trend. We just don't know when. This is why a buy-hold strategy makes the most sense. We also know that the markets are a leading indicator and they turn up when the economy looks like it is at its worst point. In the meantime, our portfolio positioning will remain broadly diversified in the bond and equity markets. There is a continued emphasis on short-term duration in fixed income as we navigate these challenging times. Please know that we are here for you as your thinking partner, your resource, and your guide. We truly value you as our client and we are grateful for the trust you've placed in us to help guide you through your financial life.

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