Raymond Capital Advisors, LLC

July 22, 2022

Stock & Bond Benchmark Total Returns (%) For Periods Ending June 30, 2022						
	QTR	**YTD**	**1-Year**	**3-Years**	**5-Years**	**10-Years**
Dow Jones Industrial Average	-10.78	-14.44	-9.05	7.24	9.98	11.70
Standard & Poor's 500	-16.10	-19.96	-10.62	10.60	11.31	12.96
Bloomberg Barclays U.S. Aggregate Bond	-4.64	-10.30	-10.25	-0.92	0.89	1.55
60% Stocks / 40% Bonds TAA Composite Index	-11.61	-16.09	-10.22	6.24	7.38	8.50
3-month Treasury Bills	0.25	0.33	0.35	0.52	1.03	0.60

Returns (%) include capital gains, dividends and interest, and are **annualized** for periods greater than one year.

Sources: S&P Dow Jones Indices, Morningstar, Federal Reserve.

Market Review: Markets Tumble with Few Places to Hide

With inflation spiking to 9.1% (Y/Y), the Federal Reserve intensified its efforts to raise interest rates and slow the economy in Q2 2022. In response, both stock and bond markets tumbled. For the quarter, the S&P 500 Total Return Index declined 16.10%, which when combined with its 4.60% drop in Q1, allowed the Index to cross the 20% decline threshold the popular media often uses as its bear market criteria. Bonds also took another quarterly hit with the Bloomberg Barclays U.S. Aggregate Bond Total Return Index losing 4.64%.

For the first half of 2022, there were few places to hide. Among the major asset classes (stocks, bonds, cash, gold) and the 11 S&P equity sectors, only cash, and the Energy sector produced positive returns. Even the traditional balanced portfolio of 60% S&P 500 Total Return Index and 40% Bloomberg Barclays U.S. Aggregate Total Return Index tumbled 16.09%, its worst first half since 1981 (since US Aggregate Bond data began). On a one-year basis, stock and bond returns were nearly equal (-10.62%, -10.25% respectively).

Throughout the quarter, RCA kept its core equity portfolio exposure overweighted in defensive sectors such as Energy and Consumer Staples, as well as larger-cap Technology with an added exposure to Value utilizing a Value Exchange Traded Fund. For balanced accounts, stock and bond allocations were kept near benchmark weightings, with the fixed income portfolio holding a significant portion in inflation protected securities, and short-maturity (cash-like) Exchange Traded Funds.

Historically, following waterfall declines similar to what we've experienced this year, it's typical for the stock market to go into a trading range for several months as it tests economic assumptions and price support levels. This is often a waiting game and a modest break to new price lows by a few percentage points is also not uncommon (i.e. a final gasp of capitulation often marking the final bottom). Nonetheless, the good news is that valuations as measured by price-to-earnings ratios have also contracted to more reasonable levels, which helps to support higher future long-term returns.

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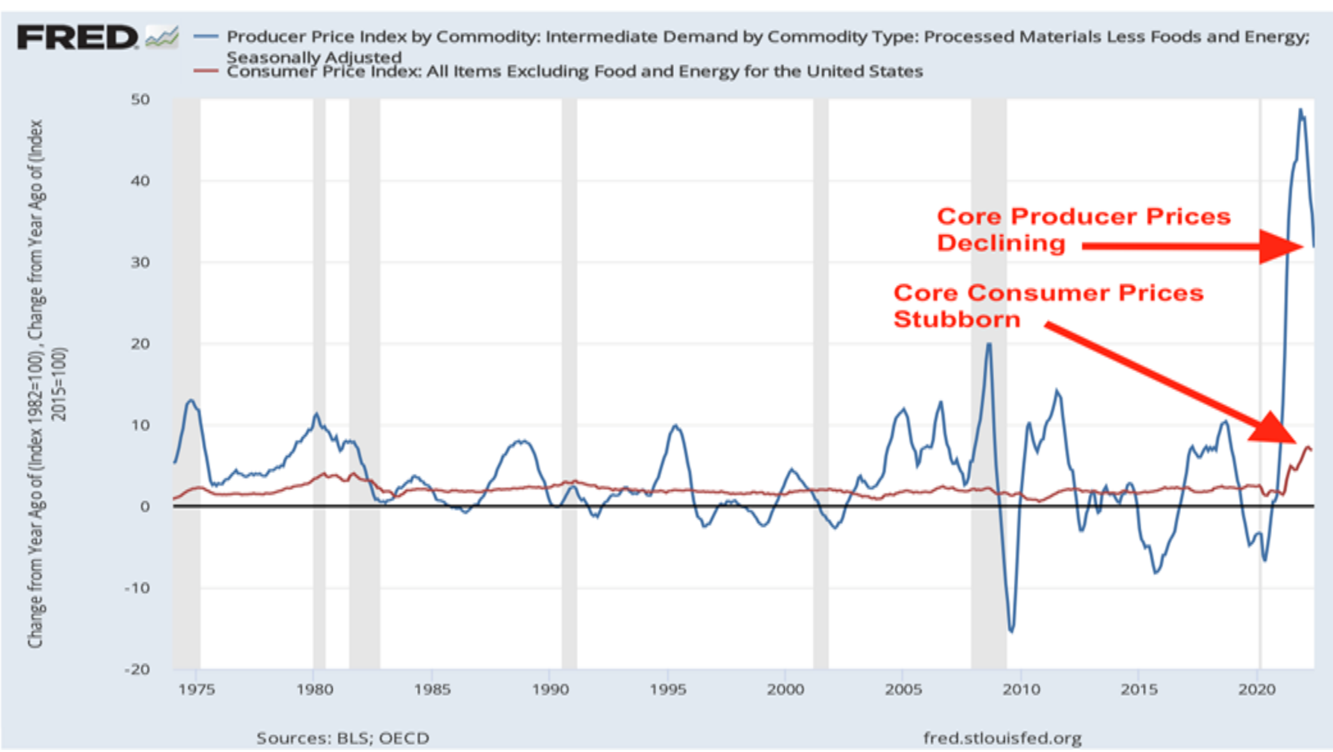
Outlook: Stay the Course

The current surge of inflation has been largely caused by a combination of supply chain disruptions as the economy reopens, as well as too much money in the system from both fiscal spending (which was necessary to prevent a deep and prolonged recession during Covid), and the Federal Reserve being too easy with its monetary policy for too long. In order to put out the inflation fire, the Fed can only slow the economy via raising interest rates and drain the excess liquidity from the system. It cannot, however, directly affect the heart of the inflation problem, i.e. supply chain issues. **As a result, there is a real risk that the Fed will push the economy into recession to kill inflation.**

To be sure, consumers are still feeling inflation challenges. But many of the **leading indicators** of economic activity are already pointing to the slowdown the Fed is prescribing. Not only have stock prices weakened significantly, but also commodity prices such lumber, metals, grains, oil (gasoline less so), consumer expectations, building permits, and even home prices have recently softened. **In all, Fed chair Powell has stated that a series of monthly declines in inflation along with well-anchored future inflation expectations, are what's needed for the Fed to start backing-off of its hawkish interest rates hikes. Markets will like a less hawkish stance, and will likely move ahead of such an event.**

The charts below show the progress on the inflation front. At the producer level, core inflation (which excludes the volatile food and energy components) has been declining rapidly. At the consumer level, however, inflation has been more stubborn with shortages in housing and labor this cycle. Meanwhile long-term future inflation expectations have remained anchored below 2.5%.

Inflation Pipeline: Producer Prices Declining, But Not Yet Evident in Consumer Prices



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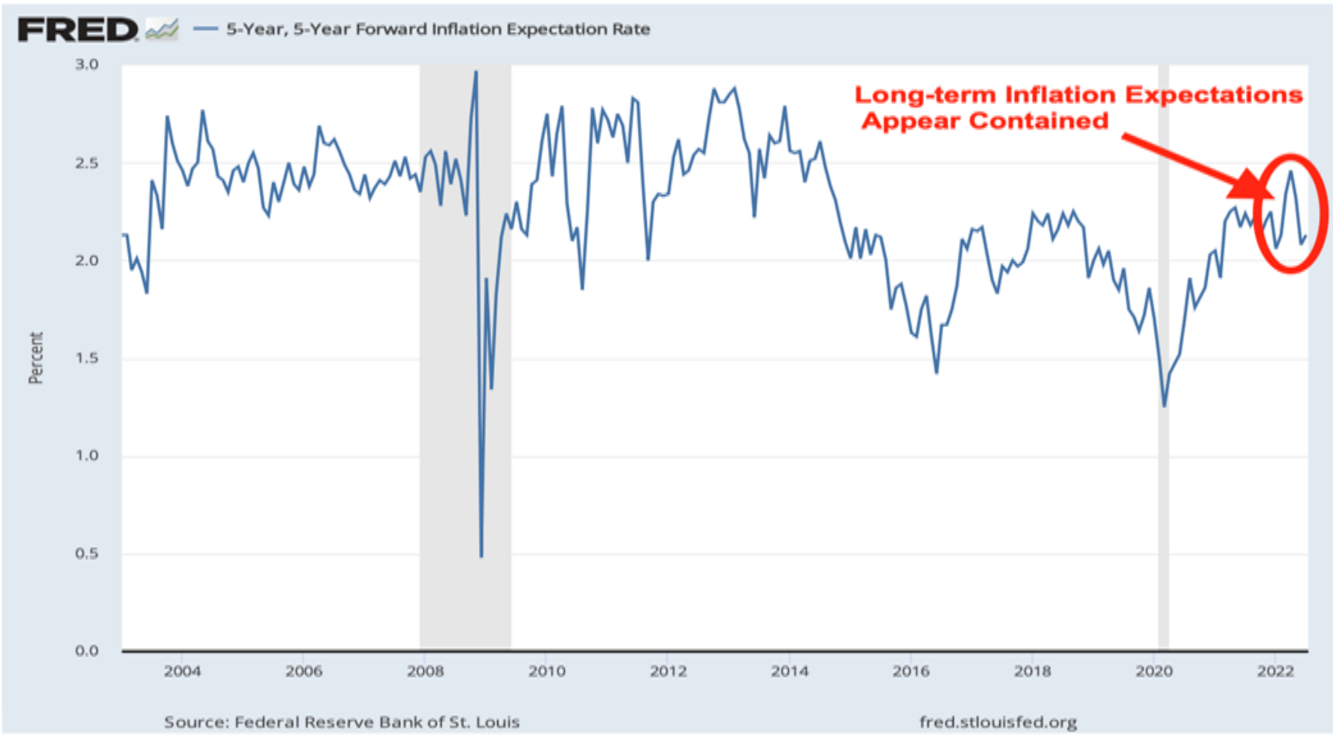
Future Long-term Inflation Expectations Hold Near 2.5%



What does all of this mean for stock prices? If inflation persists, the Fed will continue raising interest rates and the risks that the economy slips into recession will also increase. And to the extent that rising interest rates slow the economy and earnings more than the markets have already priced in, markets will remain on the defensive.

The chart below, however, offers a hopeful sign. It suggests that **stock prices, having endured their fourth worst first half on record, may have already priced in much of the downside risks**, and perhaps even a mild recession. According to the historical post-WW II record from Ned Davis Research, when the S&P 500 has declined more than 15% in a single quarter, a significant bounce has ensued 87% of the time in the following quarter with a median return of 6.3%. The odds also improve to 100% of the time over the next two to four quarter periods (returns of 13.0% and 25.1% respectively). A recession could be associated with three of the eight cases from this study. Of course, future returns are under no obligation to conform to history, and recessions can also lengthen portfolio recovery times**. But unless you believe we're headed into a 1929-style depression scenario (and we don't see sufficient evidence for this) where portfolio recovery times are significantly longer, we'd stay the course.**

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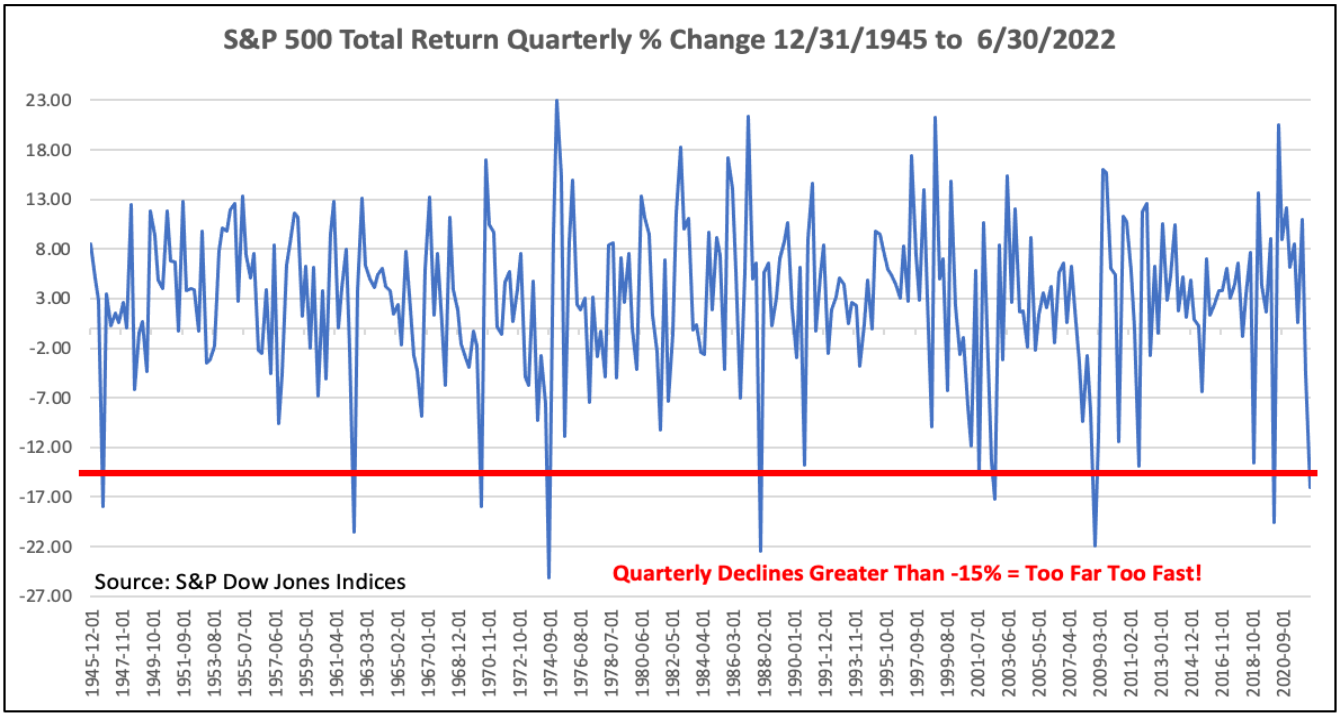
Stocks May Have Already Priced-In A Lot of Downside Risk



All the best,

Geoff & Lance

Raymond Capital Advisors, LLC
A Retirement Wealth Advisor