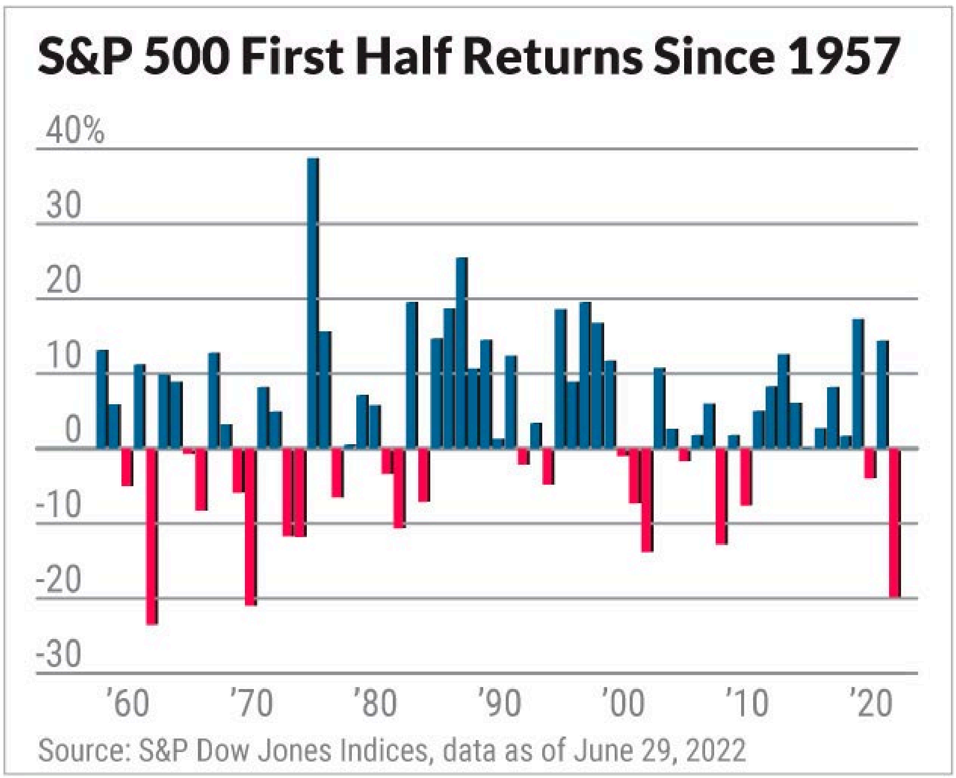
Market Madness

It's been a tough first half of the year for investors. The stock market has endured its worst performance since the early 1970s due to a perfect storm of factors, including historically high inflation, global macroeconomic challenges, and organic corrections following the trillions in pandemic stimulus money printed.



The silver lining is that this market correction has created incredible buying opportunities for those who can stomach the volatility. This may be one of the best times for long-term investors to start picking up some bargains. Additionally, markets have performed well following poor first-half returns. Looking back at the past century of stock market data, one key trend stands out: when the S&P 500 is down 15% or more in the first half of the year, it historically has a strong rebound in the second half. This pattern can be seen in the graph below, which plots the percentage change in the S&P 500 index from January 1st to July 1st against the percentage change from July 1st to December 31st.

The index produced gains in all five instances, and it is essential to note that these data sets go back to the Great Depression. Although past performance does not guarantee future results, a significant recovery trend goes back almost a century.

The table below looks much brighter for the S&P 500 when looking at its second-half performance when the index is down at least 15% in the first half of the year.

Year	2nd Half % Change
1970	26.51
1962	15.25
1940	6.01
1939	15.01
1932	55.53
Average	23.66
Median	15.25

The Labor Markets Are Shifting

The labor market is starting to loosen, which has been the one bright spot in the economy in 2022. The unemployment rate has fallen, and job openings are at a record high, but are beginning to stabilize. The number of job seekers per opening has also fallen to a record low.

The great resignation was a pandemic-led employment revolution, but the jobs-applicants ratio is shifting back into balance as the economy continues to open up. This is good news for employers, who will have more bargaining power regarding wages due to the sharp increase in wage inflation we have seen over the last year. The tight labor market has been one of the critical drivers of wage growth in recent years. As the labor market loosens, we can expect wage growth to moderate.

However, it is still likely to remain strong by historical standards. This is good news for the economy, as higher wages help to support consumer spending. The Federal Reserve will closely monitor the labor market to gauge how much slack there is in the economy. They will then adjust monetary policy accordingly to keep inflation under control.

According to Reuters, “Staff shortages became a hallmark of the U.S. employment market during the COVID-19 pandemic, with so many workers quitting or changing jobs it was dubbed the "Great Resignation." Fed Chair Jerome Powell recently told lawmakers the current U.S. job market, with nearly two open jobs for every unemployed individual, was "sort of unsustainably hot."

[Source]

Commodity Prices Are Extremely Volatile

Commodity prices are all over the place now due to extreme supply and demand gaps and ongoing supply chain issues. This volatility is good news for some producers and investors but bad news for consumers and businesses that rely on commodities. We also see significant shortages of some commodities. These conditions are likely to continue in the near term.

Gasoline prices in the United States are currently at all-time highs. Despite this, oil prices have fallen slightly in recent weeks. This is due to a variety of factors, including production cuts by major oil-producing nations and increased demand from countries like China. However, it is still unclear how long these lower prices will last. In the meantime, U.S. President Joe Biden has suggested a federal gas-tax holiday to provide relief to American consumers.

This would temporarily suspend the gasoline's 18.4 cents per gallon tax, which costs the average driver about $30 per month. While this would relieve drivers, it is unlikely to impact gasoline prices significantly. To truly bring down the cost of gasoline, we need to see a sustained decrease in oil prices.

Crypto Clawbacks

The Crypto market has seen better days. Since the beginning of the year, many staple assets like Bitcoin and Ethereum have lost over 50%. This is a steep decline, and it doesn't seem like things will be improving anytime soon. There are a few key factors that have contributed to this market crash. First of all, there has been a lot of negative press surrounding Cryptocurrencies in general.

This has led to a loss of confidence among investors, and many people have decided to sell their holdings. Secondly, there has been a crackdown on Cryptocurrency exchanges in some countries. This has made it more difficult for people to trade Cryptocurrencies and has reduced overall demand.

Finally, the overall economic conditions are not conducive to investing in risky assets like Cryptocurrencies. With interest rates rising and stock markets looking increasingly unstable, many investors have decided to move their money into safer investments. For now, it seems like the Crypto market is in a downward spiral. However, it's important to remember that this is a highly volatile market and conditions can change quickly. Only time will tell if the market can recover from this crash.

BTC YTD Price - Source: YCharts

Articles We're Reading

Boris Johnson announces resignation: "When the herd moves, it moves" … (link)

Homebuyers Wrestle With Tricky Calculus as Mortgage Rates Post Massive Swings…(link)

Jobless claims edge up to highest since January; planned layoffs soar; trade deficit hits 2022 low …. (link)

Education Department Announces Major Changes To Student Loan Forgiveness … (link)

Market Snapshot

For the Month Ending 6/30/2022 (Cumulative Returns)[1]

United States Markets	1-Month	3-Month	YTD	1-Year
Dow Jones Industrial Average	-6.71%	-11.25%	-15.31%	-10.80%
S&P 500	-8.39%	-16.45%	-20.58%	-11.92%
The NASDAQ Composite	-8.71%	-22.44%	-29.51%	-23.96%
U.S. Mid Cap	-9.93%	-16.28%	-20.88%	-16.03%
U.S. Small Cap	-8.88%	-16.75%	-22.14%	-22.63%

Global Markets	1-Month	3-Month	YTD	1-Year
Nikkei 225	-3.25%	-5.13%	-8.33%	-8.33%
Hang Seng	2.08%	-0.62%	-6.57%	-24.17%
Shanghai Comp	6.66%	4.50%	-6.63%	-5.36%
FTSE 100	-5.76%	-4.61%	-2.92%	1.87%
DAX	-11.15%	-11.31%	-19.52%	-17.69%

Fixed Income	1-Month	3-Month	YTD	1-Year
Corporate Bonds	-3.62%	-8.40%	-16.08%	-16.14%
Municipal Bonds	-1.46%	-2.53%	-7.84%	-7.63%
High Yield Bonds	-7.05%	-9.48%	-13.77%	-12.80%

Market Indicators	Rate	Market Indicators	Value
10 Year Treasury	2.88%	WTI Crude Oil	105.76
Fed Funds Target	1.75%	Gold - Spot Price	1,811.18
Inflation Rate	8.6%	U.S. Dollar	1.04
Unemployment Rate	3.6%	CBOE Volatility Index	28.71

[1]Source – Morningstar, Inc. Corporate Bonds is presented as the iShares iBoxx $ Investment Grade Corporate Bond ETF. Municipal Bonds is presented as the iShares National Municipal Bond ETF. High Yield Bonds is presented as the iShares iBoxx $ High Yield Corporate Bond ETF. 10 Year Treasury refers to the valuation of a 10 Year Treasury Note, a debt obligation issued by the U.S. Department of the Treasury. Fed Funds Target represents upper limit of the federal funds target range established by the Federal Open Market Committee. Inflation Rate provided for the purposes of this report by the U.S. Bureau of Labor Statistics. Unemployment Rate calculated by the U.S. Bureau of Labor Statistics. WTI Crude Oil refers to the price of a barrel of West Texas Intermediate NYMEX) Crude Oil. Gold – Spot Price relates to the valuation of an ounce of gold, as traded on the NYSE Arca Exchange. U.S. Dollar refers to the U.S. Dollar Index (DXY). All Returns are denominated in USD (United States Dollar), unless otherwise explicitly noted.

Did You Know?

The Fourth of July is a federal holiday in the United States commemorating the Declaration of Independence of the United States, on July 4, 1776. The Continental Congress declared that the thirteen American colonies were no longer subject to the monarch of Britain and were now united, free, and independent states.

The Congress had voted to approve the Declaration of Independence two days earlier, on July 2. On July 4, 1776, the Declaration of Independence was published. It was signed by fifty-six men who pledged their "lives, fortunes, and sacred honor" to the cause. Today, Americans celebrate the Fourth of July with picnics, parades, Concerts, games and other activities.

As we celebrate our nation's birthday this month, here are a few little-known facts about this patriotic holiday. did you know that... The average person eats 155 hot dogs each year? That's enough to stretch from D.C. to Los Angeles more than five times!

Thomas Jefferson and John Adams both died on America's 50th birthday - July 4th, 1826. Founding Father Benjamin Franklin proposed that the turkey should be our national bird - not the bald eagle! And one out of every four presidents have been born on the Fourth of July!

Presented by the Investment Committee of Lake Street, an SEC Registered Investment Adviser