



# STRATEGIC CLIENT NEWSLETTER

## SECOND QUARTER 2022

<u>Market Performance</u> <i>www.bloomberg.com</i>					
<u>Dow Jones Industrial Average</u>		<u>S&amp;P 500</u>		<u>Nasdaq Composite</u>	
This Quarter	-11.43%	This Quarter	-16.62%	This Quarter	-22.71%
Year-to-Date	-15.17%	Year-to-Date	-20.50%	Year-to-Date	-29.46%

*Indices are unmanaged and you cannot invest directly in an index*

### Stock Markets Remain Negative

Stock market indices remain in negative territory for 2022, as rising interest rates and inflation take hold. With the DJIA down -15.17% and the S&P 500 down -20.50%, the price to earnings ratio of the market has begun to settle into fairly priced territory. We constantly monitor market and economic activity and will reach out to clients if there is any need to make additional portfolio changes. We believe this to be completely normal, late cycle market activity, with no economic structural or market issues that would cause us concern enough to make any sudden portfolio shifts. We are seeing indications of market preference for value over growth styles, also typical of late cycle activity.

The most recent economic data:

- In the first quarter of 2022, the nation's Gross Domestic Product (GDP) *decreased* 1.5 percent. This followed an increase of 6.9% for the fourth quarter of 2021 (Source: [www.bea.gov](http://www.bea.gov)). Changes in GDP reflect decreases in personal consumption expenditures (PCEs), nonresidential fixed investment, federal government spending and state/local government spending.

- The National unemployment rate remains low for 2022: February 2022: 3.8%; March 2022: 3.6%; April 2022: 3.6%; May 2022: 3.6. As job markets loosen, we expect the unemployment rate to increase this year. (Source: [www.bls.gov](http://www.bls.gov))
- Nonfarm productivity decreased in the first quarter of 2022 by -7.3%, with an annual decrease of -.6% from first quarter 2021 to the first quarter of 2022. (Source: [www.bls.gov](http://www.bls.gov))
- The Consumer Price Index (CPI), which measures changes in the price level (inflation) of consumer goods and services, increased 1.2% in March 2022, .3% in April 2022 and 1.0% in May of 2022. (Source: [www.bls.gov](http://www.bls.gov))
- Personal Income percent changes from previous months for 2022 were 0.6% (February 2022), 0.5% (March 2022), 0.4% (April 2022) (Source: [www.bea.gov](http://www.bea.gov))
- Corporate profits decreased in the first quarter of 2022 by -2.3%, following an increase in the fourth quarter of 2021 of 0.7%. (Source: [www.bea.gov](http://www.bea.gov))

Investment and Insurance Products: NOT FDIC Insured / NO Bank Guarantee / MAY Lose Value

### On the Horizon: Recession

A technical recession is two consecutive quarters of negative GDP. With the first quarter of 2022 showing GDP rate of -1.5%, we believe there's a good chance we could currently be in a recession now, assuming that GDP is also negative for this quarter. A recession is a normal phase of the market cycle, and in our opinion this recession was delayed by the enormous Covid-19 related spending by the Federal government in 2020-2021. While inflation and rising interest rates contribute to the possibility of an economic recession, there are other leading economic indicators that can also point to an impending recession:

1. **Stock Market**: A company's current stock price is typically indicative of the company's expected earnings. Rising stock prices translate to companies being confident in future growth, while decreasing stock prices can mean investors are moving from stocks into safer investment havens, such as bonds and Treasury securities. Major stock market indices are currently negative for 2022. (Source: [www.bloomberg.com](http://www.bloomberg.com))
2. **Yield Curve**: The Treasury yield curve shows the return on Treasury bills, from short-term to long-term. A normal yield curve will show lower returns for short-term Treasury bills and higher returns the longer the term of the Treasury bills. An inverted yield curve, which shows higher returns for short-term Treasury bills, can foreshadow a recession. The current yield curve is normal, and not inverted. (Source: [home.treasury.gov](http://home.treasury.gov))
3. **Durable Good Orders**: The durable goods reports shows when companies order big ticket items, such as machinery, automobiles and commercial jets. When the economy weakens, expensive equipment items will typically be delayed or cancelled. The current report shows a 0.7% increase for May 2022, following an increase of 0.4% in April 2022. (Source: [www.census.gov](http://www.census.gov))
4. **Building Permits**: Building permits show what will happen in home construction nine months from now. Falling permits would indicate that the demand for new housing is also falling. Changes from the previous month in 2022 are as follows: -14.8% (January 2022); -0.6% (February 2022); +28.5% (March 2022); -7.3% (April 2022); -4.9% (May 2022). (Source: [www.census.gov](http://www.census.gov))
5. **Manufacturing Jobs**: The number of manufacturing jobs shows a manufacturer's confidence level. When factory orders rise, more workers are needed. When manufacturers stop hiring, it can be a clear indicator of a recession. The manufacturing jobs added in March of 2022 was 58,000; April 2022 was 61,000; May 2022 was only 18,000. (Source: [www.bls.gov](http://www.bls.gov))
6. **Wage Inflation**: We believe that wage inflation above 4% is a reliable leading economic indicator of a recession. For the twelve-month period ending in May 2022, the wage inflation was 5.2% (Source: [www.bls.gov](http://www.bls.gov))

One thing to note is that recessions are ***completely normal economic activity***. Recessions occur during the business cycle when the economy is contracting, with increasing unemployment and decreased output. This occurs when the country's actual output is above the country's potential output (aggregate demand has grown faster than aggregate supply). This causes the economy to overheat because output is continuing at an unsustainable level. Eventually, the business cycle will hit a peak from this activity and enter a recession. On the opposite end of the business cycle, when actual output is below potential output, both employment and output fall, creating a negative output gap. The business cycle will then eventually reach a trough before entering a recovery and expansion phase.

### Mid-Year Outlook

We are monitoring the following, which could cause some market volatility in the second half of this year:

1. Stock Markets: We expect the stock markets to remain negative for 2022, although we believe we will see some modest recovery near the end of the year.
2. Bond Markets: We feel the bond markets will recover from their lows earlier this year, even as the Federal Reserve continues increasing interest rates, and the pressure in the bond markets from the war in Ukraine slowly lifts.
3. Mid Term Elections: We expect there to be additional volatility in the markets during mid term elections as the balance of power potentially shifts in the House and the Senate.
4. Inflation: We expect inflation to remain high this year, and into the next 24-36 months, as our economy digests the almost \$5 trillion spent in Coronavirus relief.
5. Interest Rates: As the Federal Reserve continues to increase interest rates, we should see improvements in the fixed income rates and CD rates.

Please call our office with any questions or concerns regarding market activity and portfolio investments.

### CHB Investment Group Observations

- We believe stocks have entered more fairly valued territory. We recommend value stocks over growth stocks, and believe additional selloff in the stock markets may create additional buying opportunities if P/E ratios fall under fair value pricing.
- We believe the Federal Reserve will continue to raise interest rates this year, with potentially 2-3 more increases this year. We have an overweight bias towards Treasury securities and inflation protected fixed income.
- We have a **negative bias** in residential and a **neutral bias** in corporate real estate, and we expect housing markets to be negatively impacted with inflation and rising market interest rates.
- We have a **neutral** bias towards corporate debt, as we continue to see interest rates rise.

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This is provided for informational purposes only. We need to review your investment objectives, risk tolerance and liquidity needs before we introduce suitable managers/investment programs to you. All investing involves risk, including the possible loss of principal. Mid-cap stocks are generally more volatile, subject to greater risks and are less liquid than large company stocks. There are special risks associated with an investment in real estate, including the possible illiquidity of the underlying properties, credit risk, interest rate fluctuations and the impact of varied economic conditions.

## CHB Investment Group News

For clients still needing to sign up for online access to your Schwab accounts, please visit [www.schwaballiance.com](http://www.schwaballiance.com) and give our office a call so we can help facilitate the process.

- The Trenton Thunder is under way, and we have tickets available to clients for the 2022 season! The tickets are available on a first come, first serve basis, so please call our office if you're looking to enjoy a game with friends and family.
- We are seeing more and more scam and phishing attempts, with clients receiving more sophisticated e-mails, phone calls and text messages. **If you suspect a scam or unauthorized attempt to access any of your account/personal information, please call our office immediately; do not click on any links, respond to any e-mails or call any provided phone number that you may be suspicious of.** We will continue to be diligent in the monitoring of client account activity and will always get either verbal or written authorization for any account activity.
- For clients who are age 72 and over, the suspension of required minimum distributions from deferred retirement accounts has ended. Required minimum distributions have resumed. In the third quarter, we will reach out to clients who are still in need of fulfilling the requirement for 2022. Please call our office if you have any questions.

**For clients who would like to receive non-confidential information regarding general market conditions and CHB Investment Group updates, please send your preferred e-mail address to [chris.lindenthal@chbinvestmentgroup.com](mailto:chris.lindenthal@chbinvestmentgroup.com)**

Past performance is no guarantee of future results.

Indices are unmanaged and you cannot invest directly in an index.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value.

The Dow Jones Industrial Average is a price-weighted index of 30 "blue-chip" industrial U.S. stocks.

The NASDAQ Composite Index measures the market value of all domestic and foreign common stocks, representing a wide array of more than 5,000 companies, listed on the NASDAQ Stock Market.

Generally, CDs may not be withdrawn prior to maturity. CDs are FDIC insured up to \$250,000 per depositor per insured depository institution for each account ownership category. CDs may be issued by out of state institutions.

Stocks offer long-term growth potential, but may fluctuate more and provide less current income than other investments. An investment in the stock market should be made with an understanding of the risks associated with common stocks, including market fluctuations. The prices of small company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product clarification and competitive strengths to endure adverse economic conditions. There are special risks associated with an investment in real estate, including credit risk, interest rate fluctuations and the impact of varied economic conditions.

Investing in fixed income securities involves certain risks such as market risk if sold prior to maturity and credit risk especially if investing in high yield bonds, which have lower ratings and are subject to greater volatility. Bond prices fluctuate inversely to changes in interest rates. Therefore, a general rise in interest rates can result in the decline of the value of your investment. All fixed income investments may be worth less than original cost upon redemption or maturity.

Investing in foreign securities presents certain risks not associated with domestic investments, such as currency fluctuation, political and economic instability, and different accounting standards. This may result in greater share price volatility. Diversification does not guarantee profit or protect against loss in declining markets.

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