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Second Quarter Market Watch

The major US equity indices slipped into a bear market at the end of the second quarter on fears that persistently high inflation would prompt more aggressive rate increases from the US Federal Reserve. Inflation accelerated to 9.1% in June, its highest pace in over four decades, dashing hopes that subsiding price pressures would allow the Fed to ease up. The University of Michigan's consumer sentiment plunged in June 2022 to the lowest level on record, an ominous sign for slowing economic growth. The disappointing economic data propelled stocks lower, as the US equity market closed its worst first half of the year since 1970, a stunning reversal of the rally during the preceding two years. The S&P 500 decreased 20% year to date, to 3,785.38. The Dow Jones Industrial Average fell 14.4%, to 30,775.43, while the Nasdaq Composite retreated 29.2%, to 11,028.74.

The 10-year US treasury yield fell to 2.97% at the end of June, after reaching 3.48% earlier this month, its highest level in 11 years. Meanwhile, the 2-year yield has continued to rise, to above 3%. The 2- and 10-year treasury yield curve briefly inverted at the end of the quarter and has resumed its inversion through mid-July as investors braced for the prospect of aggressive monetary policy tightening. The spread between the 2- and 10-year treasury yields is often seen as an indicator of a recession.

The Federal Open Market Committee in June 2022 raised rates by 75 bps and lifted its target range for the federal funds rate to1.50-1.75% from 0.75% to 1.00%. This was the Fed's largest increase since 1994 but was in line with expectations given elevated inflation. The market bounced on the news, but the optimism fizzled, and stocks declined across the market as investors reassessed the risks ahead. Sentiment got more negative amid a wide range of concerns surrounding Fed policy, along with a pickup in worries about the downside risks into corporate earnings.

In commodities, US crude oil slightly retreated from a recent high of $120 early June to $110 at the end of Q2. US natural gas futures reached their highest levels in over a decade. The surge in natural gas prices was partly due to the growing demand abroad. Russia blocked Ukraine's ports, which has hindered grain exports from the country, leading to a sharp increase in the prices of agricultural commodities. Despite the recent decrease in wheat prices as Russia is expected to produce a record crop this year, agricultural commodity prices remain elevated. Elsewhere in the commodities complex, copper prices have surged since the onset of the war in Ukraine and reached a record high in March before receding in recent months. Copper's decline is a reflection of the increased fear of a global recession.

In currencies, the US dollar is near parity with the euro for the first time since 2002, and the strongest against the yen since 1998. The strengthening US dollar has been powered by the combination of regional economic differentials and monetary

	Date	YTD		1 Year Ago	
	6/30/2022	12/31/2021	% chg	6/30/2021	% chg
DJIA	30,775.43	36,338.30	-14.4%	34,502.51	-9.1%
S&P 500	3,785.38	4,766.18	-20.0%	4,297.50	-10.6%
NASDAQ Composite	11,028.74	15,644.97	-29.2%	14,503.95	-23.4%
Russell 2000	4,244.79	5,580.17	-23.4%	5,742.30	-25.2%

	Date	YTD		1 Year Ago	
	6/30/2022	12/31/2021	% chg	6/30/2021	% chg
Japan Nikkei 225	26,393.04	28,791.53	-26.9%	28,791.71	-22.3%
MSCI EM (Emerging Markets)	1,000.67	1,374.64	-25.0%	1,232.01	-17.5%
MSCI EAFE	1,846.28	2,304.92	-17.3%	2,336.07	-19.3%
MSCI AC World	596.77	719.97	-15.4%	754.83	-20.0%
FTSE 100	7,242.59	6,848.31	4.2%	7,313.56	-11.2%
SSE Composite Index	3,398.62	3,591.20	-4.4%	3,639.78	-11.1%

US Equity Sector

	YTD	1-yr ret.
Consumer Discretionary	-32.8%	-25.8%
Consumer Staples	-5.6%	5.4%
Energy	31.8%	48.3%
Financials	-18.7%	-12.2%
Health Care	-8.3%	1.2%
Industrials	-16.8%	-13.5%
Information Tech	-26.9%	-16.6%
Materials	-17.9%	-8.7%
Communication Services	-30.2%	-30.7%
Utilities	-0.6%	11.4%

US Equity Style

	YTD	1-yr ret.
RUSSELL 1000 VALUE	-12.9%	-10.5%
RUSSELL 1000 GROWTH	-28.1%	-6.9%
RUSSELL 2000 VALUE	-17.3%	-20.8%
RUSSELL 2000 GROWTH	-29.5%	-12.5%

Commodity Prices

	Jun 2022	Dec 2021	Jun 2021
Gold	1,807.30	1,828.60	1,771.60
Crude Oil	105.76	75.21	73.47
UD Dollar Index	104.46	95.59	92.43
Commodity Index	117.05	99.17	94.54

support. The sharp increases of USD against the euro and yen were due to the soaring price of natural gas, and the threat that Russian supplies to Europe might be cut off altogether. As major energy importers and capital goods exporters, Germany and Japan have been under significant pressure.

Cryptocurrencies have seen a broad selloff since November 2021. The selling pressure has continued through the end of Q2, as investors retreat from risky assets. Crypto's total value in circulation has fallen by $2 trillion, or more than two-thirds since bitcoin hit an all-time-high late last year. The price of bitcoin has decreased by 70% from its peak of $67,802 last year. Ether, the second most popular cryptocurrency, has dropped 80%.

Retail sales slipped on a seasonally adjusted month-over-month in Q2, worse than a modest gain that economists had forecasted. The rising cost of gasoline has been prompting consumers to cut back on other purchases. Some of the biggest winners in the pandemic are now seeing setbacks. Sales of furniture, electronics, and appliances all decreased slightly from the year-ago levels. Retailers were buying more merchandise during the pandemic, which has resulted in excess inventories. The elevated inventories suggest that discounts are coming. Meanwhile, a strong job market and healthy household balance sheets suggest that Americans will keep spending. However, they are shifting their spending away from home goods to services such as dining out, travel, and entertainment.

Housing starts dropped 14% recently, to a thirteen-month low, much deeper than the 2.6% decline expected by economists. The Philadelphia Fed Business Index for June came in with a negative 3.3 reading, its first contraction since May 2020.

So far, corporate earnings growth has remained healthy, which had buttressed stocks during the market turmoil. With all S&P 500 companies having reported their first quarter results, the earnings growth was at 9.3% year-over-year. For 2022, the earnings are projected to grow 9%. In the early stages of rising inflation, many companies were able to pass cost increases along to their customers by raising prices. As a result, the S&P 500 operating profits reached 11.9% in the first quarter, well above the 6% seen in March 2020, as well as above the five-year average of 11.1%. More recently, however, there have been high-profile examples of significant pressure on profit margins due to higher costs and supply chain issues. Walmart shares dropped 11% in a single day in May 2022 after reporting an erosion of profits. Target shares plummeted 25% the day after it issued a profit warning, citing elevated costs. Expectations for earnings have revised lower for some of the S&P 500 companies. Analysts now expect profits from the S&P 500 to increase 5.2% in the second quarter, down from the 6.6% increase forecasted three months ago. Forecasts for the third- and fourth quarters have also been reduced.

Since 1960, the S&P 500 has had just two first-half losses greater than this year's 21% drop through June 30th: one in 1962, the other in 1970. In each of these years, stocks rebounded in the second half, rising 15% in the final six months of 1962 and 27% in 1970, respectively. Prior to this year, there were seven first-half declines of 10% or more. In each of these years, stocks saw higher volatility in the second half, making bigger moves in either direction following the first-half swoon.

Whether the economy is in a recession or entering one is still up for debate, but there have been rising concerns about the path of the economy. For investors, this sense of doom and gloom can lead to questionable financial decisions with investments, debts, and household budgets. Panic selling is among some of the common mistakes. Many individual investors tend to sell during a market downturn. This would lock in losses and have negative consequences for their long-term wealth accumulation. Here at the 1911 Trust Company, our investment and wealth professionals remain focused on how to rebalance your investment assets by revisiting your target asset allocation and use tax-loss harvesting to reduce your tax liability. If you have extra cash, we will take advantage of a market downturn to buy assets with good fundamentals and attractive valuation. Lastly, it is important to reassess your return requirements and risk tolerance based on your current circumstances. Market downturns and recessions are a fact of investing. If you feel increasingly uneasy about your investments, we are here to help you with customized solutions aimed at providing the optimal risk and return trade-off over the long term.

Interest Rates

	Jun '22	Dec '21	1 Yr. Ago
USD Prime Rate (TPI)	4.75	3.25	3.25
USD Federal Funds (TPI)	1.58	0.09	0.10
US 2Y T-Note Yield (TPI)	2.93	0.73	0.25
US 10Y T-Note Yield (TPI)	2.98	1.51	1.45
30YR FIXED MORTGAGE	5.70	3.11	2.98

Exchange Rates

	Jun 2022	Dec 2021	Jun 2021
Euro per U.S. Dollar	0.957	0.879	0.843
British Pounds per U.S. Dollar	0.823	0.738	0.724
China Renminbi per U.S. Dollar	6.694	6.373	6.461
Indian Rupee per U.S. Dollar	78.973	74.336	74.330
Japanese Yen per U.S. Dollar	135.855	115.155	110.990

Economic Sentiment

	Jun 2022	Dec 2021	Jun 2021
Unemployment Rate	3.60	3.90	5.90

US Bond Performance

	Q2	YTD	1-Year Return
BAR CAP Govt. Interm. TR	-1.7%	-5.8%	-6.8%

Kevin Kavanaugh
Chief Investment Officer

Lei Qin, CFA, CFP®, FRM, CAIA
Director of Equity Research and Portfolio Management