July 13, 2022

Mid-Year Update

Amidst a challenging backdrop for the markets in the first half of this year, the stock market is off to its worst start since 1970. The Nasdaq is down 30%, the S&P 500 is down 21%, and the Dow Jones Industrial Average is down 15%.

The S&P 500 is in bear market territory (more than 20% decline) for the 13th time since World War II. Although the market is correcting, the S&P 500 is still up 28% over the past three years.

Fixed Income

Bonds, typically a safe haven during periods of market declines, are also down with the Barclays Aggregate Bond Index down 10%. The Federal Reserve continues to tighten financial conditions into a slowdown, raising rates 0.75% at their most recent announcement on June 15th and the expectation is for another 0.75% increase at their July meeting. The silver lining of short-term interest rate increases has been a bump up in short-term CD rates.

Risks Remain

Economic uncertainty remains high as slower economic growth will keep pressure on stocks. We are in the late stage of the economic cycle: labor markets are tight, costs are soaring, and the central bank is tightening policies.

The new inflation numbers were released giving us 9.1% inflation in June. This, coupled with the fact the Federal Reserve is raising interest rates faster than anticipated in a slowing economy, accelerates the concern of a recession.

We are starting to see some cooling off in the housing market as the housing rebound has turned into an affordability crisis. 30-year mortgage rates are now near 6%, more than doubling since the low point in August 2021. Average mortgage payments have risen 49% compared to a year ago. Although homes are still selling quickly, the number of price drops on existing homes is starting to pick up as buyers are rethinking their purchases with monthly payments increasing. Within three months of the Federal Reserve's rate increases, we have seen mortgage applications drop to a 22-year low.

With inflation at a 41-year high, consumers are spending more money on every day necessities. We now have the lowest US personal savings rate since September 2008.

110 Fort Couch Rd., Suite 108, Pittsburgh, PA 15241
Tel: 412.851.1400 | Fax: 412.851.1403 | Email: kfg@kapustafinancial.com

Kapusta Financial Group is a Registered Investment Advisor

Consumer spending at retailers fell in May for the first time this year, a sign that consumers are struggling to stomach higher prices. Credit cards have become a fallback as we see revolving debt reach over $1.04 trillion, giving us a $124.5 billion annual increase – being the largest year-over-year dollar increase in history. The University of Michigan Consumer Sentiment chart shows how consumer confidence has plummeted to an all-time low as a result of current gasoline and food prices (see Fig. 1).

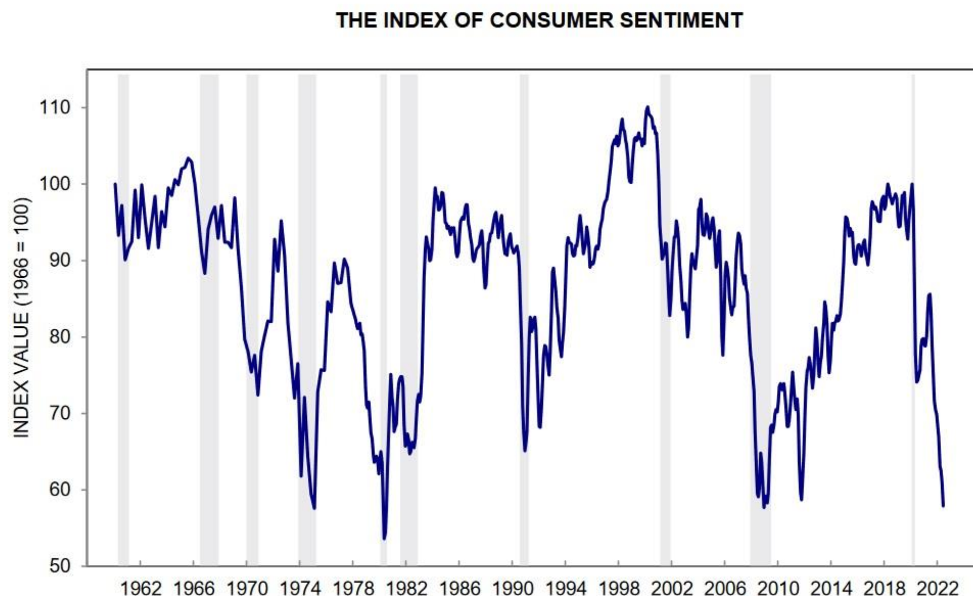

Fig. 1. U.S. Consumer sentiment levels, 1962-2022. Graph from *Surveys of Consumers*, University of Michigan.

Outlook & Opportunities

How long will the market pain last?
As we know, there is no guarantee on how quickly things will bounce back but let's look at some historical data. After suffering 10 separate "bear" markets between 1950 and 2021, the S&P 500 recovered and eventually achieved a new all-time closing high each time. The average length of time it took to retrace its steps from a "bear" market low to a new closing high was 25.5 months or more than 2 years. The quickest recovery for stocks took place over just 3 months (in 1982) while the longest recovery took 70 months or nearly 6 years (between 1974-1980).

This downturn will present buying opportunities along the way and we are keeping an eye out for when the time is right. Valuations for US stocks are still above historical averages, but if prices continue to decline there will be times to get back in the market.

We hold a cautious approach in the short-term, but still have each investor's timeframe in mind. A well-diversified portfolio based on your goals remains our forward approach as we suggest tactical changes along the way.

As always, we at Kapusta Financial Group, would like to thank you for the trust and confidence you place in our team.

110 Fort Couch Rd., Suite 108, Pittsburgh, PA 15241
Tel: 412.851.1400 | Fax: 412.851.1403 | Email: kfg@kapustafinancial.com

Kapusta Financial Group is a Registered Investment Advisor