# *Marketline June 2022*

### *Stocks:*

June brought a continuation of the declines we've seen in earlier months this year. The S&P 500 dropped 8.4%, and the NASDAQ, replete with technology stocks, was off 8.7%. The Dow, with less exposure to technology and mostly containing older established firms, declined a bit less at 6.7%. Overseas, the numbers were similar. Europe was off about 5.8%, the market to the south of us (Mexico) sank 8.2% and our neighbors to the north suffered a decline of 9%. All told, this six-month start to the market year was the worst since the 1970s, and to boot, we managed to surpass bear market territory, defined as -20% or more.

Sometimes the best way to 'see' something is with hindsight over a long-ish time frame. In the context of this nasty market, we can look back and see that many stocks peaked last year around October or November even though the S&P didn't peak until December 27th. As far as how long this downturn might last, the next month might tell us more. Earnings season is upon us, and we will shortly find out how accepting investors will be if profits don't match expectations. Has the market dropped enough to account for recessionary profit levels, or not? We often find that bad news takes more than one repetition to sink in. We've seen many a situation when a company says, "our next quarter isn't going to be great", and investors don't react. Then, as promised, three months later the quarter isn't great, and the stock drops. Underreaction is a common phenomenon in markets. So is overreaction. We need to figure out where in that spectrum we are.

A client asked us the other day: "Does looking for value change when the market is down?" The answer is, yes and no. The metrics we use to identify value – mostly relative numerics – don't really change. But the type of company we see does. In a broad-based downturn, we have a shot at higher-quality companies that may not ever pass our screens except in a bear market. One such company is Nestle, which we were able to add to our prospective purchases list recently. Nestle is a strong competitor in the food industry at a reasonable valuation. Nestle never becomes very cheap, but it's now at the lower edge of its valuation range for the last ten years, making it a worthy prospect. At the same time, a downturn can reveal that some companies are not as well prepared for negative economic circumstances as they – or we – thought. Those may become sale candidates. Thanks for the question!

### *Bonds:*

Bonds have not provided much relief performance-wise lately, falling in price along with stocks. But it's worth keeping in mind that the volatility of bonds does tend to be less than stocks, and even if returns are negative, they are rarely as negative as a bad bear market in stocks can be. The Government/Credit index – our favorite bond market measure – is down a bit over 11% in 2022 through June, versus stocks at -21% (S&P).

In June, the yield curve flattened markedly. The one-year note came up to a yield of 2.7%; but the thirty-year rose to 3.18% and sits there now, as we write this. The shorter end of the curve continues to tick up, into July. Higher rates on near maturities will eventually flow through to money market funds, bank CDs, and so forth. Of course, we have all seen what mortgage rates have done this year – a near-parabolic rise. Some small relief might be on the way there, too, as the ten-year bond has settled at 3%, a little lower than its recent trading pattern.

Looking forward, we remind ourselves that ending inflation means a slower economy, and a slower economy means lower interest rates. But lower from where? Are we early in the game, or in the final innings? The economy is unquestionably slowing, so is 3% it? We expect that we're closer to the end than the beginning of higher rates but to hedge the idea that we could be wrong, we've purchased some shorter bonds recently – now that those maturities offer better yields. High-grade corporate bonds in near maturities are sporting yields of 3% and 4% - much better than the year-ago yields in the 1-2% area. Too, we had a brief opportunity to buy municipal bonds in the 4+% area, but that's fading fast.

***Note***: I am on vacation from July 8 through July 18. Any questions, just give our office a call at 503.417.1950.