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summaries

SIGMA INVESTMENT COUNSELORS

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A BULL WALKS UP THE STEPS, WHILE A BEAR JUMPS OUT THE WINDOW

For the first half of 2022, there has been nowhere to hide as domestic equities, international equities and fixed income have been under great selling pressure. Two years of easy monetary policy, fiscal stimulus, supply chain disruptions and soaring energy prices are a few of the multiple variables that have resulted in unusually high inflation. In turn, the Federal Reserve Board has reversed their monetary policy by raising key interest rates and embracing a more restrictive monetary policy with the hope that these actions will have a dampening effect on inflation. Only time will tell if these actions will be effective in achieving this goal. During the interim, rising interest rates are increasing the borrowing costs for corporations and mortgage rates for consumers. High inflation is reducing the purchasing power of the average consumer as well. As a result, we are already seeing a reduction in GDP growth and many are fearing that a recession may be just around the corner. It is therefore not a surprise that consumer confidence and investor sentiment are both at 40 year lows, and the stock market has closed out the most difficult first half of the year since 1970.

Domestically, large cap stocks were down 16% for the quarter, with mid and small cap companies performing marginally better at -15% and -14%. The global equity markets provided no shelter, as developed markets were down 15%, and emerging markets shed nearly 12%. Even bonds, which traditionally have provided the ballast to portfolios were down nearly 5%.

As we look to the rest of the year, we expect continued volatility. Inflation has yet to show signs of abating, and the Fed has historically struggled to find their 'soft landing' – the interest rate increase which slows inflation without causing a recession.

The ongoing war in the Ukraine continues to impact commodity prices such as grains and oil, further contributing to inflationary pressures, and we have midterm elections in November. Uncertainty tends to rattle investors and so, we may see more weakness in the coming months.

It has been suggested by Jamie Dimon (CEO of JPM Chase) as well as others that we should be on guard for an "economic hurricane". Sigma has a slightly different stance and believes that much of the bad news may already be reflected in the price of equity and fixed income securities. Selling now may be "too little, too late". Instead, we see reason to stay the course. It is often difficult to view the long term picture when the value of one's investments are collapsing. However, markets tend to be a leading indicator. That is to say, the market may rebound well in advance of improving fundamentals. Moreover, while the negative performance of equities and fixed income securities is certainly painful in the here and now, market corrections of this magnitude are also painfully normal over market cycles. That is why we strongly discourage investors to attempt to time the market, a strategy that rarely proves successful over the long term. In fact, it is during times like this when investors may wish to buy into the weakness if underweighted, a strategy embraced by Warren Buffet who has advised others to "be greedy when others are fearful." The falling bear market will eventually reach a bottom, and the bull market will begin its climb upwards again.

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