

PERSPECTIVES AND POSITIONS

By James F. Dykstal, CFA, Portfolio Manager, August 2022

This is a summary of our views on the economy and markets based on data through July 2022.

Economy

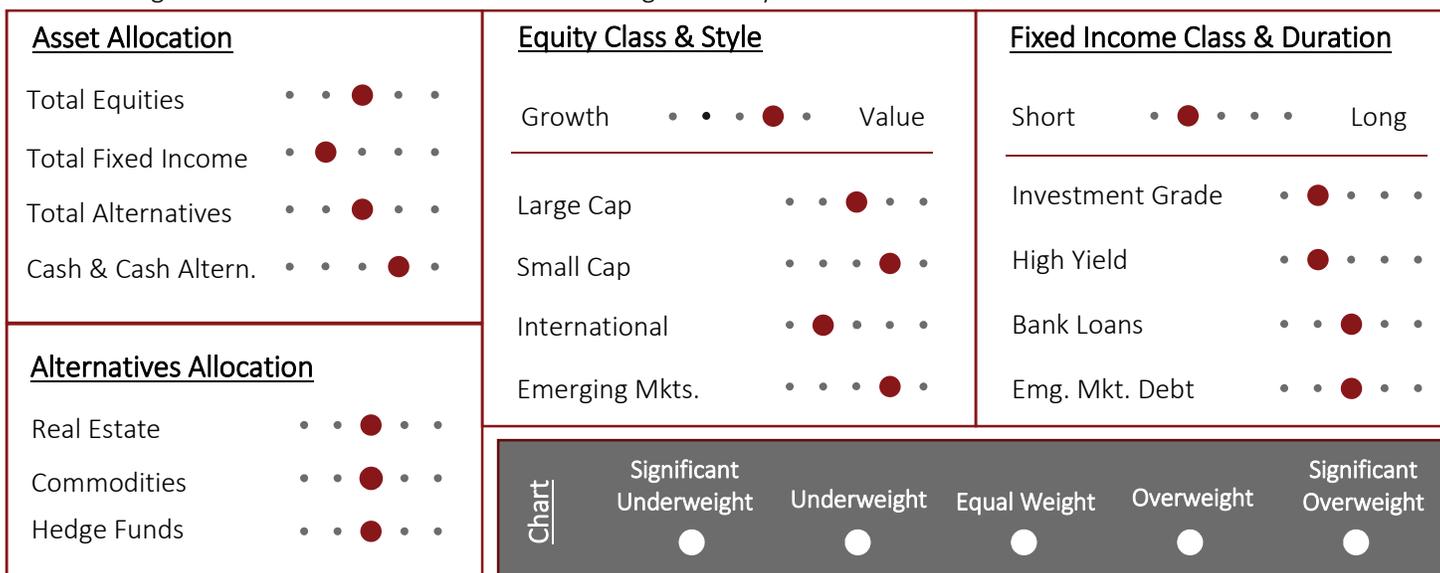
- U.S. GDP Growth - We expect to see economic growth continue to slow in 2022. The economy has now contracted two quarters in a row. The great corporate earnings growth rebound for 2021 is now in the past. 2022 and 2023 will bring slower earnings growth as a result of the slow economy.
- Inflation – Headline inflation (including energy) increased 9.1% in July 2022 year-over-year. The expectation is that inflation rate will moderate in the upcoming months but remain above pre-pandemic levels. The Fed will have to take aggressive action to bring the inflation rate under control.
- Employment/Wages – Unemployment has improved albeit with fits and starts. Tightness in the labor market is leading to higher wage growth; however, the wage growth rate is below the rate of inflation.
- Interest rates – We expect the Federal Reserve to continue with 50 basis point increases in interest rates, after two 75 basis point increases, in at the upcoming 2022 meetings. The futures market is pricing in a probability of a 3.25% year-end fed funds rate.

Markets

- Fixed Income – The short end of the yield curve is pricing in interest rate increases. The longer end of the yield curve is pricing in interest rate cuts. The Treasury yield curve is inverted between the two-year and the ten-year Treasury. We expect to see an inverted yield curve continue for the second half of the year at least.
- Equities – We expect GDP to slow and/or contract for calendar 2022. We believe that equity markets will continue to experience volatility as inflation and interest rate increases provide headwinds to valuations.
- Alternatives – Private real estate, retail, office, and apartment sectors have not kept pace with torrid industrial sector, but in aggregate are posting positive results in 2022. Hedge funds provide diversification benefits to equity/fixed income markets. Commodities have delivered strong results recently but face supply/demand imbalances and volatility.

TACTICAL POSITIONS

The following is our current Model Portfolio Positioning Summary:



¹ Provided by our affiliate, Discretionary Management Services (DMS), LLC