InnoVise FAMILY WEALTH ADVISORS

Innovation Fueling Advice

INVESTMENT OUTLOOK JUNE 2022

Most market indices posted positive, albeit anemic returns for the month of May, with only the NASDAQ index continuing to decline. **Even flat to slightly upward returns were a welcome change from a year that has seen consistent price declines.**

Year-to-date returns remain negative for every index, and **we continue to be surprised by the declines in bond markets, which are down more than the Dow Jones Industrial Averages. There has been no place to hide so far this year.**

CONSUMER CONFIDENCE – OR LACK THEREOF

By many measures, stock investors became far too negative in the middle of May. Extreme negativity is often followed by a rebound, and that might be one reason the market bounced from mid-May lows. As an example of the negativity, the American Association of Individual Investors publishes a survey asking whether investors are bullish or bearish. The number of bears remains exceedingly elevated. That number has not been as high since March of 2009, squarely in the midst of the Great Recession. Certainly, our economy is in much better shape now than it was at that time.

Other measures of consumer confidence paint a very mixed picture. The University of Michigan Consumer Sentiment index is at multi-year lows, while the Confidence Board's survey of Consumer Confidence has declined modestly but remains well above the pandemic lows. **Is the consumer struggling from higher prices, or are wage gains helping to cushion the blow? This is one area that we need to continue to pay attention to as consumption remains the most significant contributor to economic strength.**

THE ONGOING IMPACT OF INFLATION

Retailers like Walmart and Target reported the impacts of higher costs, especially from transportation costs. They also reported that consumption patterns have changed. This should not have been such a surprise to retailers as consumption patterns changed dramatically at the onset of the pandemic and are now starting to revert to pre-pandemic norms. Consumers are back to spending significantly more on travel and leisure, and less on home improvements. Some management teams have quickly adjusted to changing patterns while others have struggled. **This environment will remain a difficult one to navigate.**

Inflation pressures continue to cause problems for central bankers not just here, but across the globe. Global inflation reflects higher energy, food and commodity prices, and not the policies of any one administration. We see food and energy prices remaining high for several more quarters. **Food prices will be impacted by lower exports from Ukraine, and lower exports of Ukrainian fertilizer, which is likely to reduce crop yields across the globe. We have increased exposure to agricultural commodities to try to participate in what we see as a multi-quarter event.** Energy prices are also likely to remain elevated, reflecting increased demand as more consumers travel, and as Russian boycotts limit supplies.

PREPARED, BUT NOT YET EXPECTING A RECESSION

Some investors continue to believe we are in or very close to being in a recession. We are not of that camp, at least not yet. We see strong employment and good corporate earnings as indications of a reasonable economy, even as there are plenty of signs of weakness. **We recognize the negative impact of inflation, but believe inflation alone is unlikely to cause a recession.** Companies must slow production and reduce hiring for the slowdown to take hold across the economy, and we have not seen signs of those dominos falling.

Our preference for companies with reasonable valuations and growing dividends remains intact. These companies are currently leading the market, even as that means they are down less. There may not be many good places to hide, but we continue to look for ways to position portfolios for future success.

Bennett

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