



PRIVATE BANKING WEALTH MANAGEMENT

# Market Update

August 10, 2022

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Chief Investment Officer, Senior Vice President

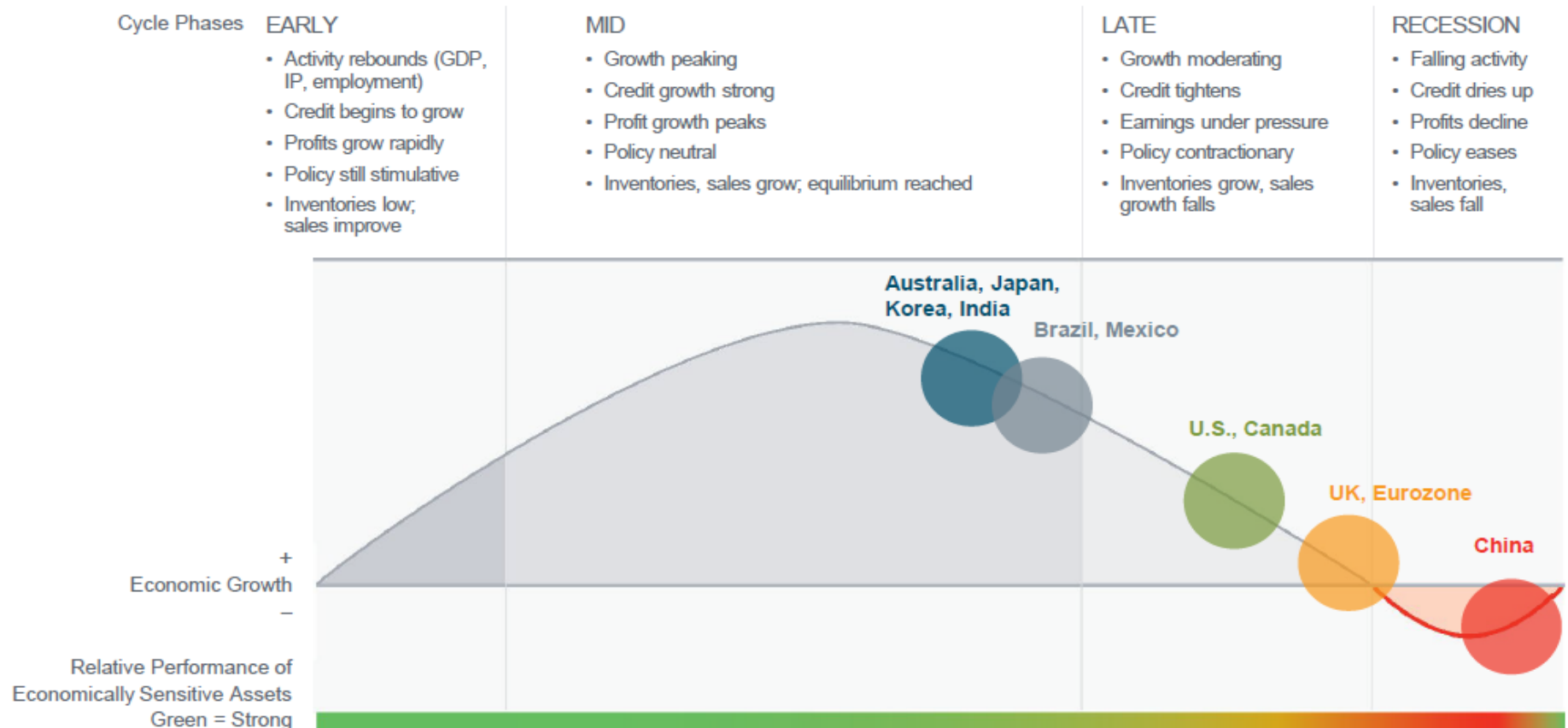
Stig Zarle  
VP, Senior Portfolio Manager



# Economic Update & Asset Allocation (David Lynch)

# In the Late Cycle, Or Worse...Next Stop Recession?

## Business Cycle Framework

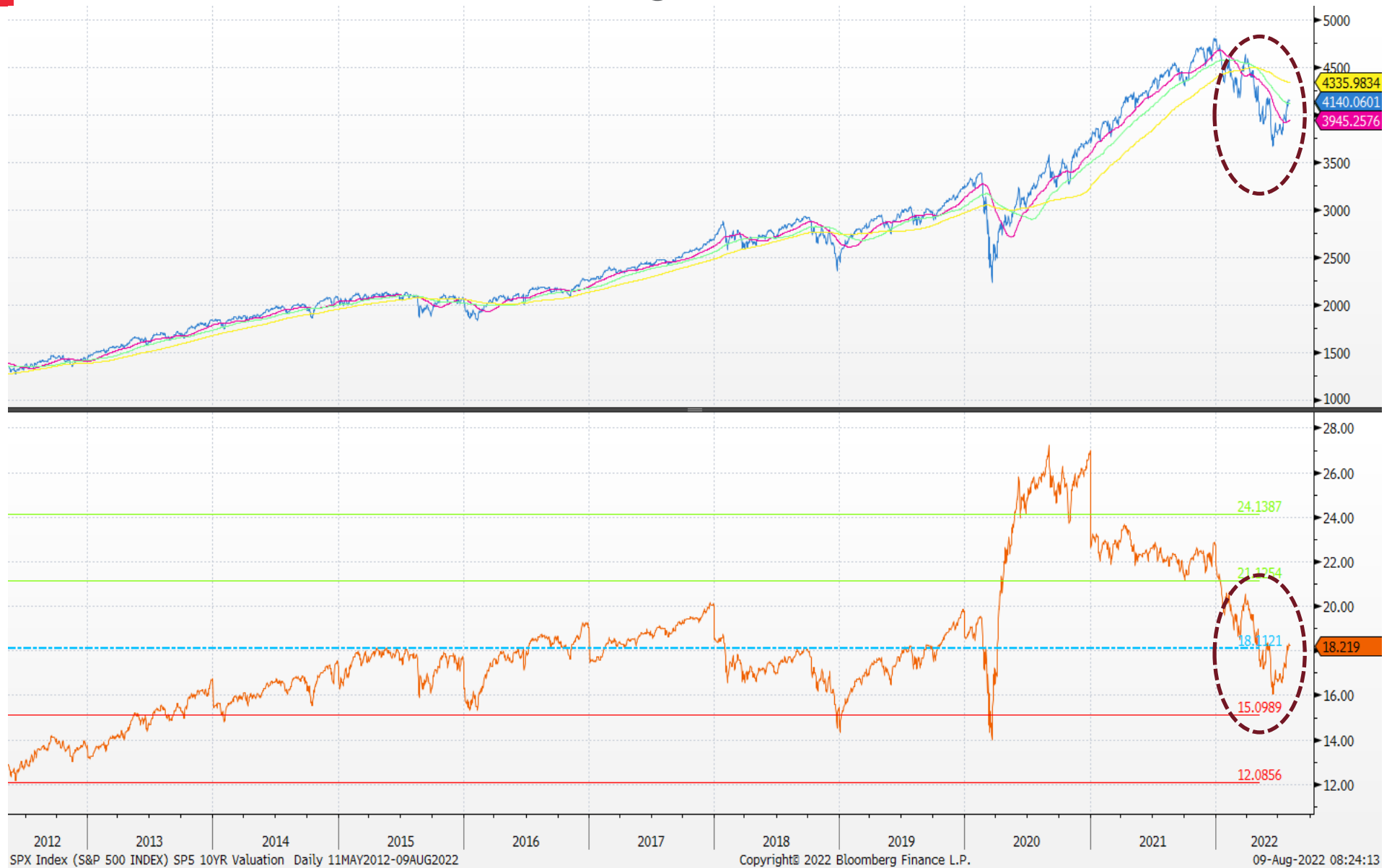


Source: Fidelity Investments (AART) 7/5/22

The US economy is the late cycle. This phase can last some length of time before a recession fully arrives and is not necessarily cause for immediate doom and gloom. However, financial conditions have deteriorated since the start of the year and the consensus is now agreeing that a recession is coming, and perhaps already underway.

# S&P 500 Short-Term Recovery (top)...

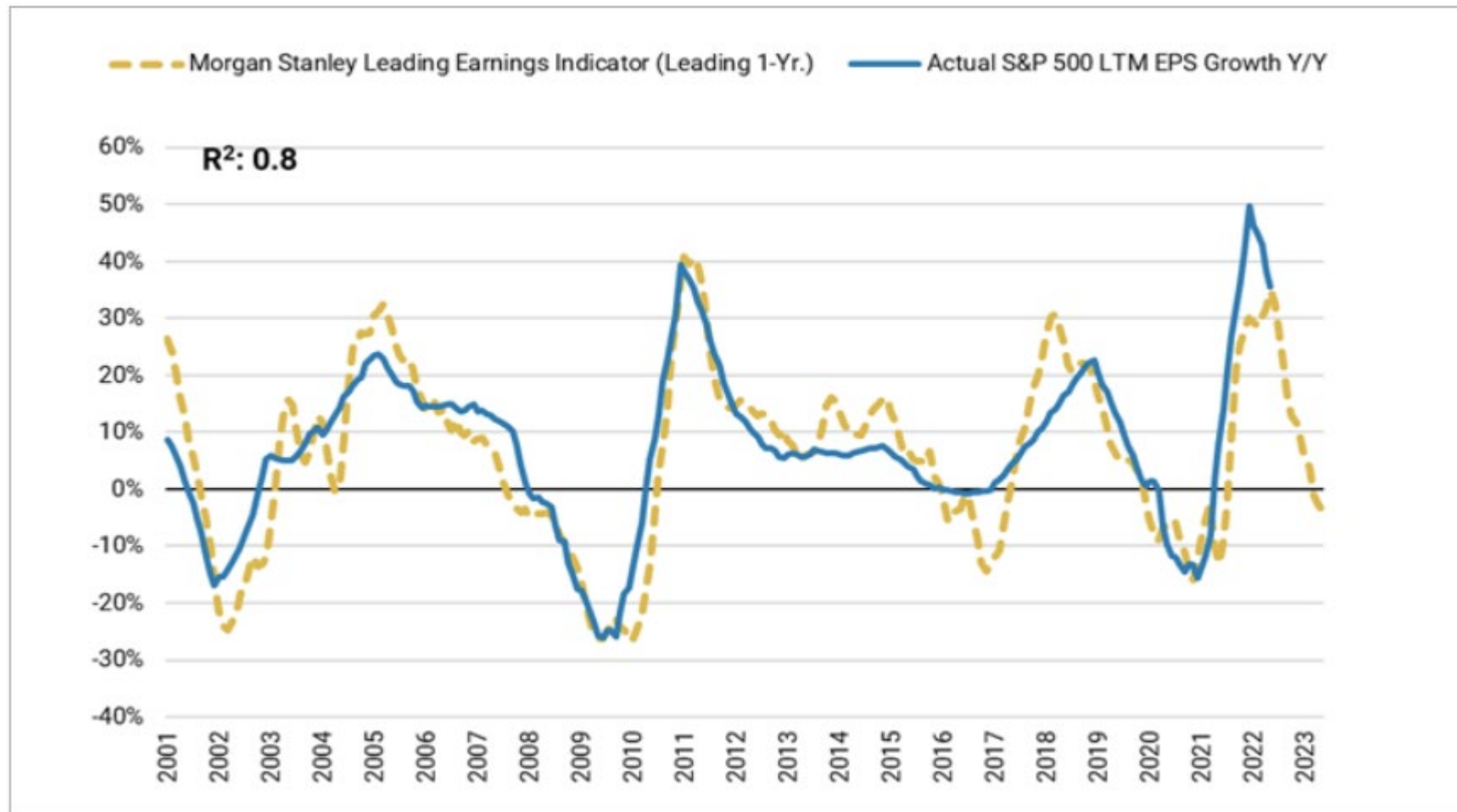
## ...Forward Valuation Mid-Range (bottom)



Source: Bloomberg, 8/9/22

# Earnings Could Have More Correcting to Do

## Earnings Leading Indicator Now in Negative Territory



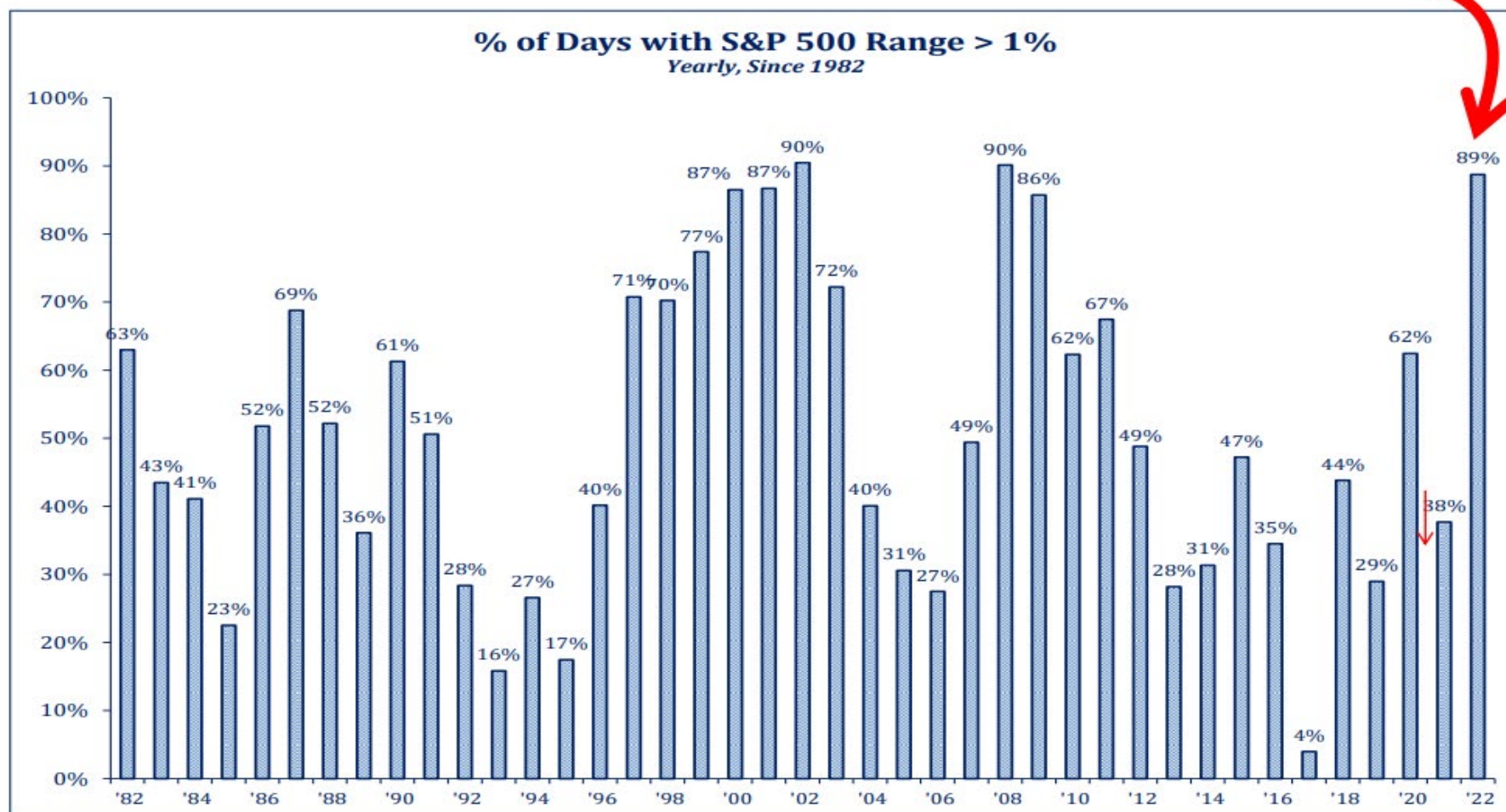
Source: FactSet, Bloomberg, Morgan Stanley Research as of June 1, 2022.

Note: The LEI is a top down macro indicator consisting of the dollar, manufacturing PMI survey data, consumer confidence, housing related data, and credit spreads.

Source: Morgan Stanley

# Stock Market Lively Nearly Every Day

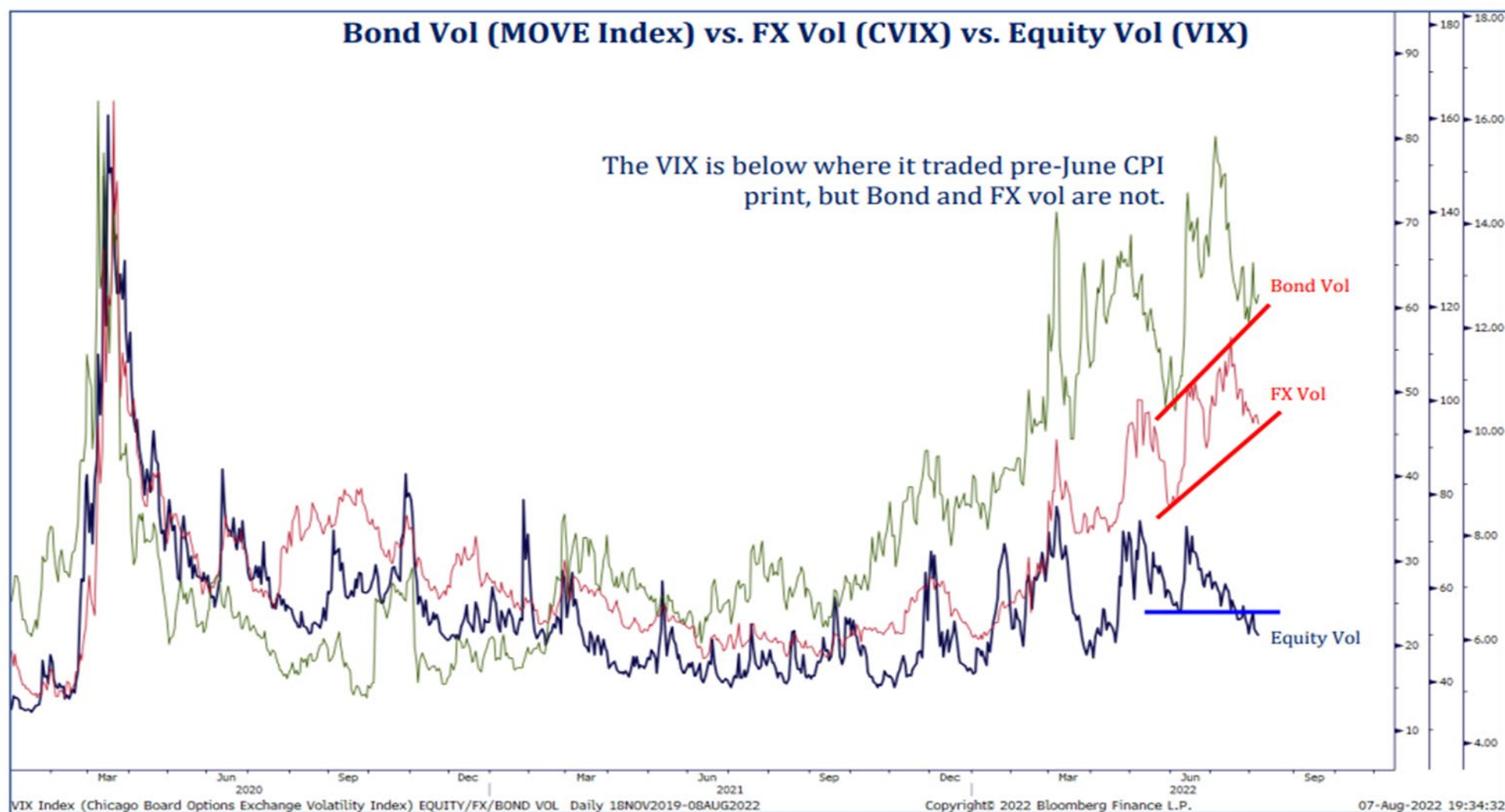
**NEARLY 90% OF DAYS WITH > 1% RANGE THIS YEAR**





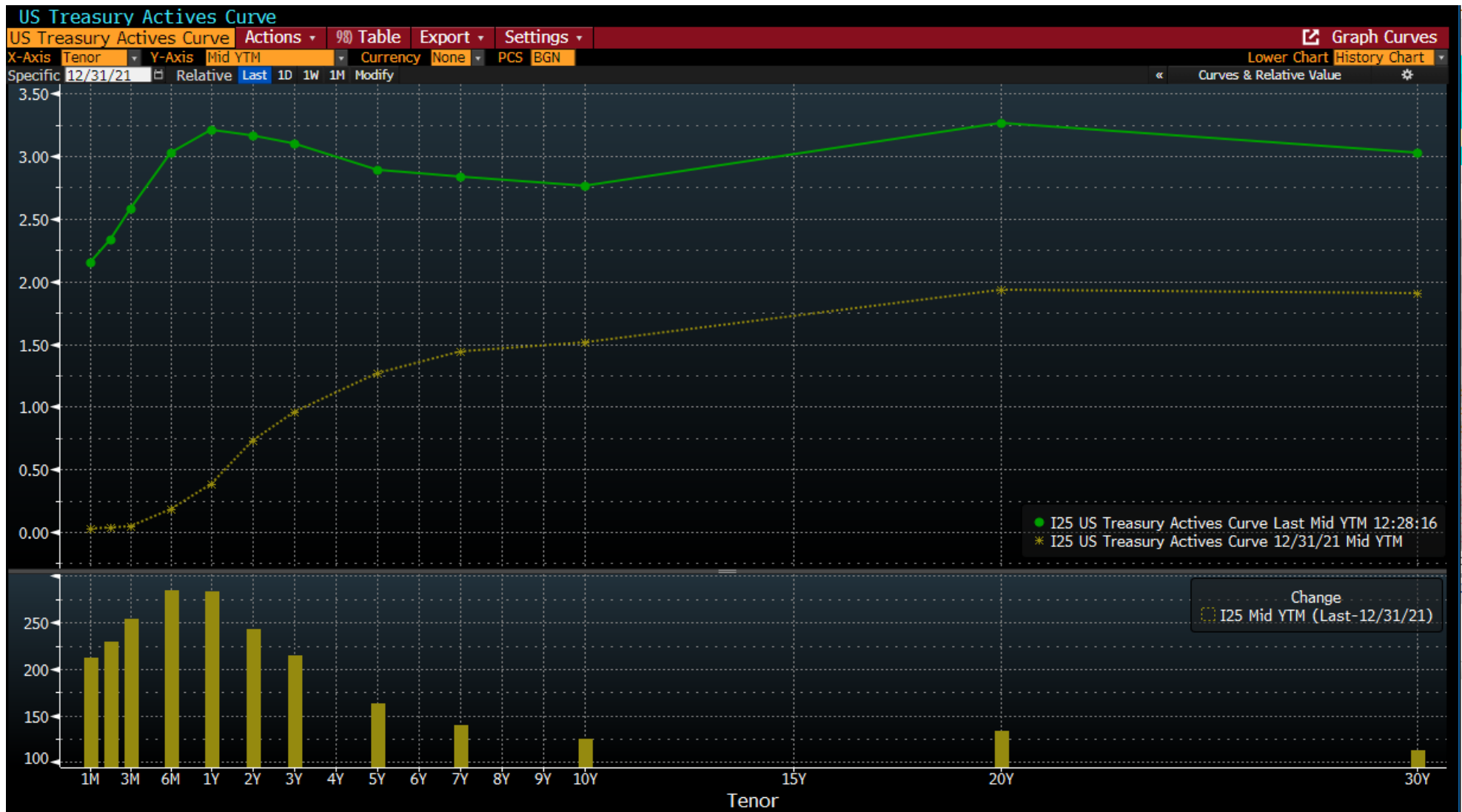
# Stocks Calmer Than Covid Onset...Bonds Still Volatile

## BOND & FX VOL PROVING STICKIER THAN EQUITY VOL



Source: Strategas, 8/7/22

# Yield Curve: Inversion Now Entrenched



Source: Bloomberg, 8/10/22

The Treasury yield curve shows investors expecting more interest rate hikes by the Federal Reserve. This outlook has inverted parts of the normally upward sloping curve.



# Bonds Reversing Course After Harsh First Half of Year

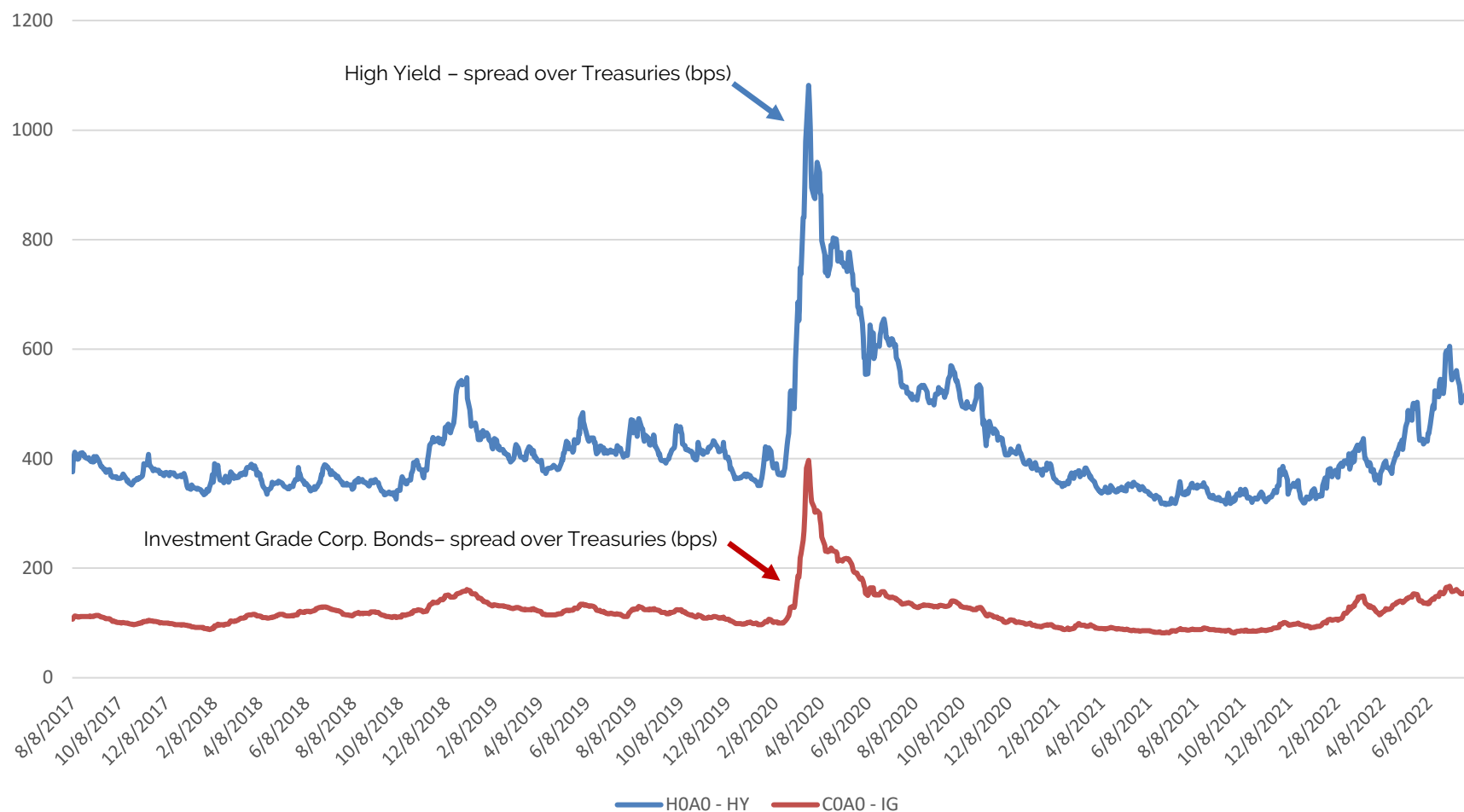
## U.S. 10 Year Treasury



Source: CT Research, FactSet Research Systems; Data as of 8/3/22

The bellwether 10-year Treasury bond has recovered some recently as concerns of recession have grown. Overall, bond returns have been negative year-to-date, though the higher yields are now more attractive for income-focused investors.

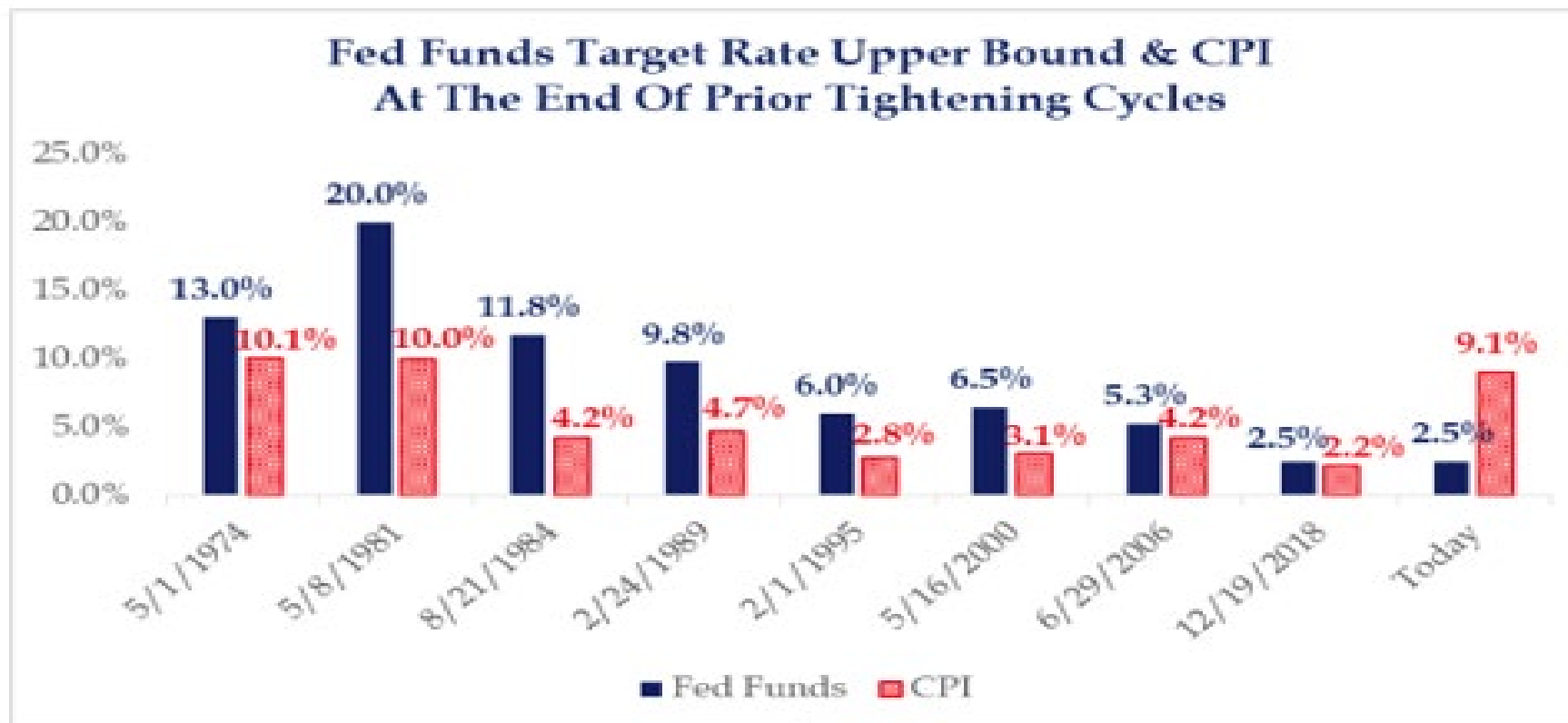
# Credit Spreads Wider, But Companies Remain in Good Health



Source: Bloomberg, ICE BofA US Corporate Index and ICE BofA US High Yield Index as of 8/5/22

Credit spreads have widened in sympathy with the growing odds of recession as well as the ongoing stock market volatility. However, credit markets remain orderly thus far and indicate that companies remain in generally good financial health and that defaults should remain subdued.

# Fed Funds Target Rate and CPI



Source: Strategas as of 8/5/22

Historically the tightening cycles have ended only after the Fed Funds rate gets above CPI. On this basis, the Fed Reserve still has more hiking to do. However, if growth and inflation start to moderate on their own, then the Federal Reserve might ultimately need fewer rate hikes (and/or move at a less aggressive pace).

# Mortgage Rates Up, Housing To Cool More?

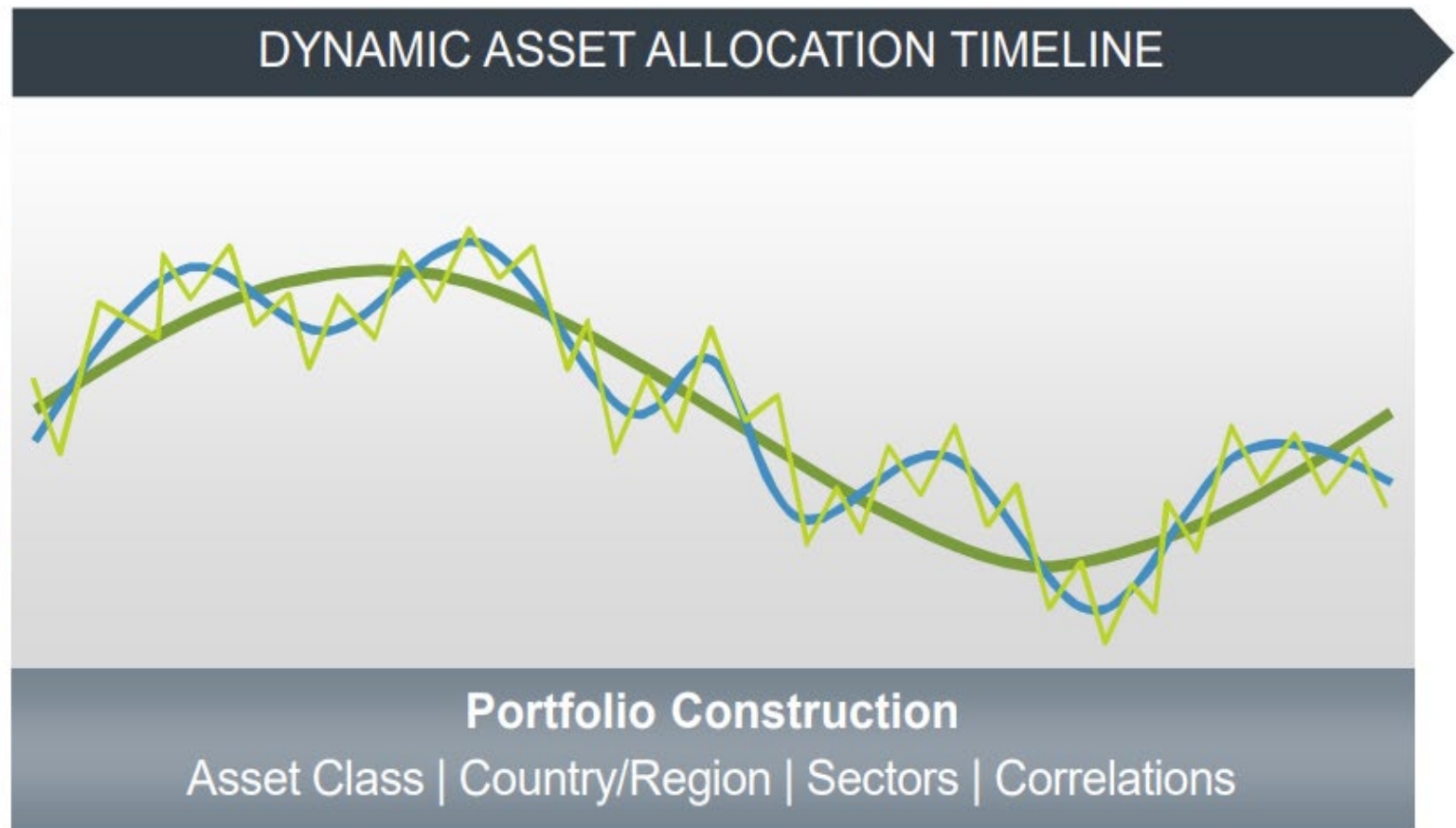


Source: FreddieMac.com, data as of 8/4/22

# Gasoline Prices Cooling Rapidly



# Volatility is Inevitable, Don't Lose Sight of the Big Picture



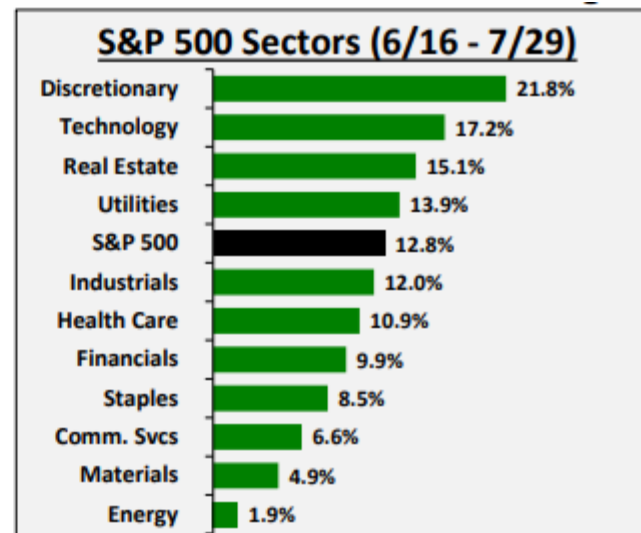
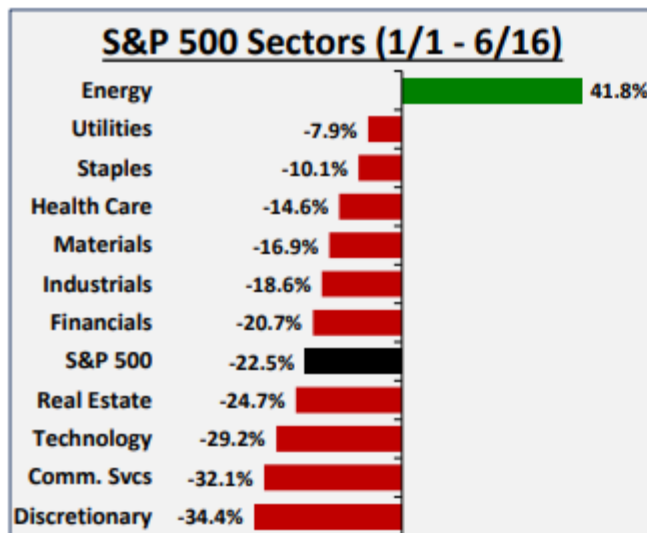
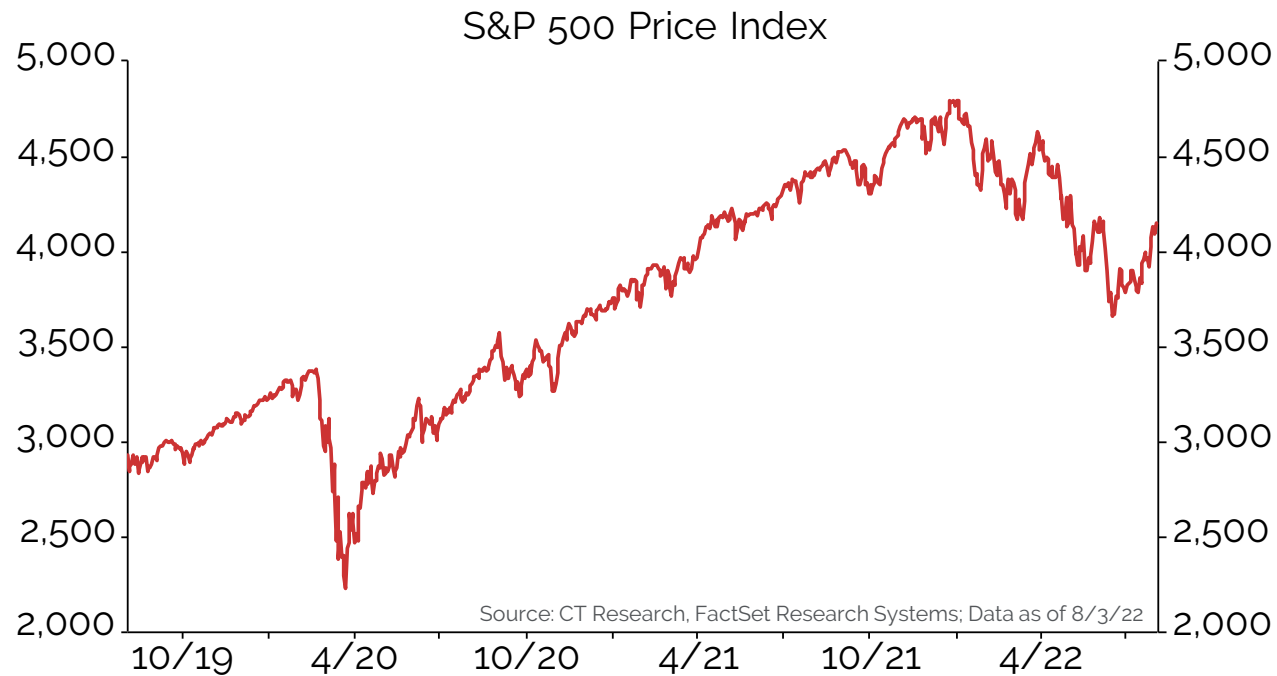
Source: Fidelity Investments (AART)



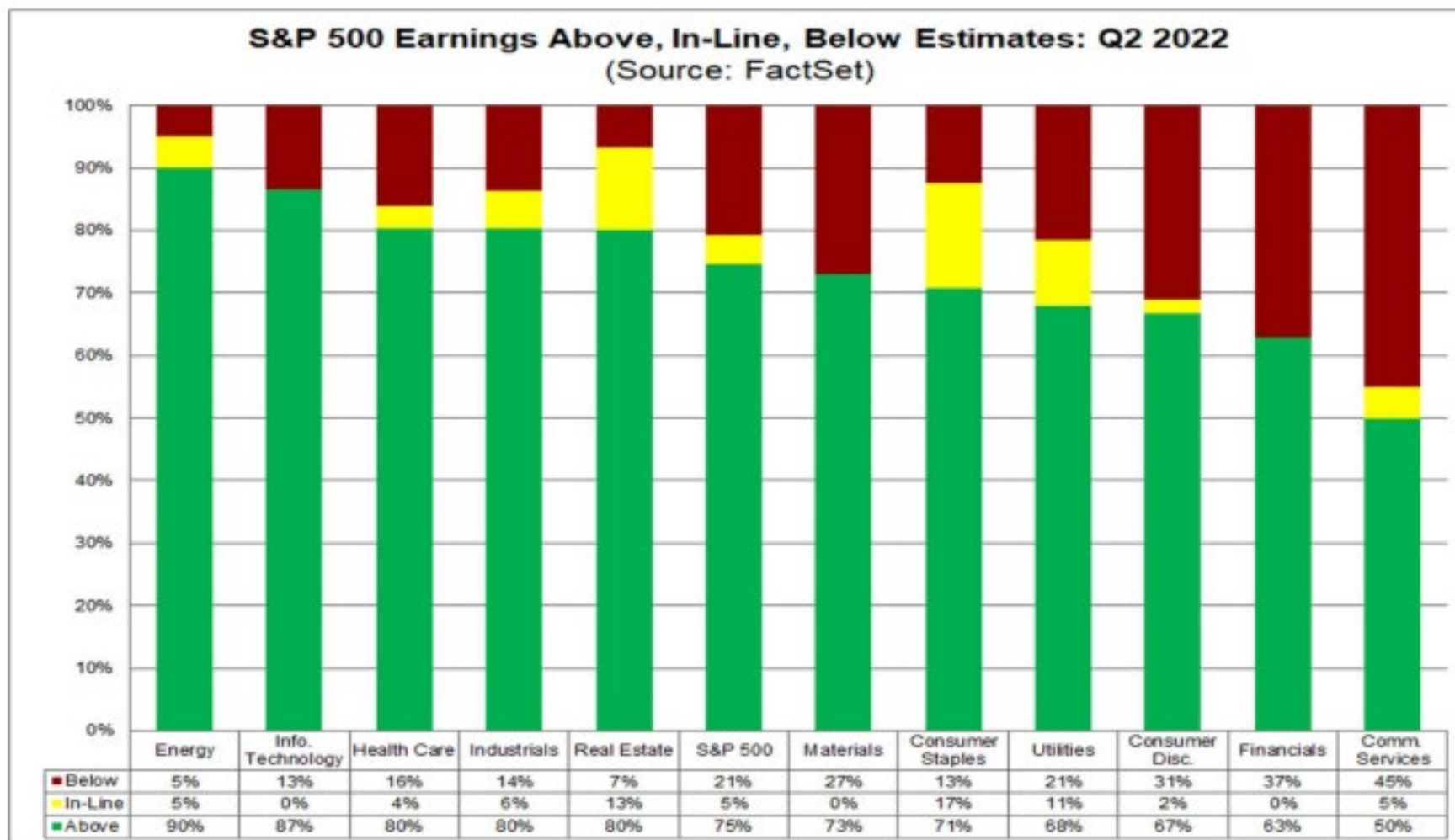


# Stock Market Overview (Stig Zarle)

# U.S. Equities: A Difficult First Half of the Year

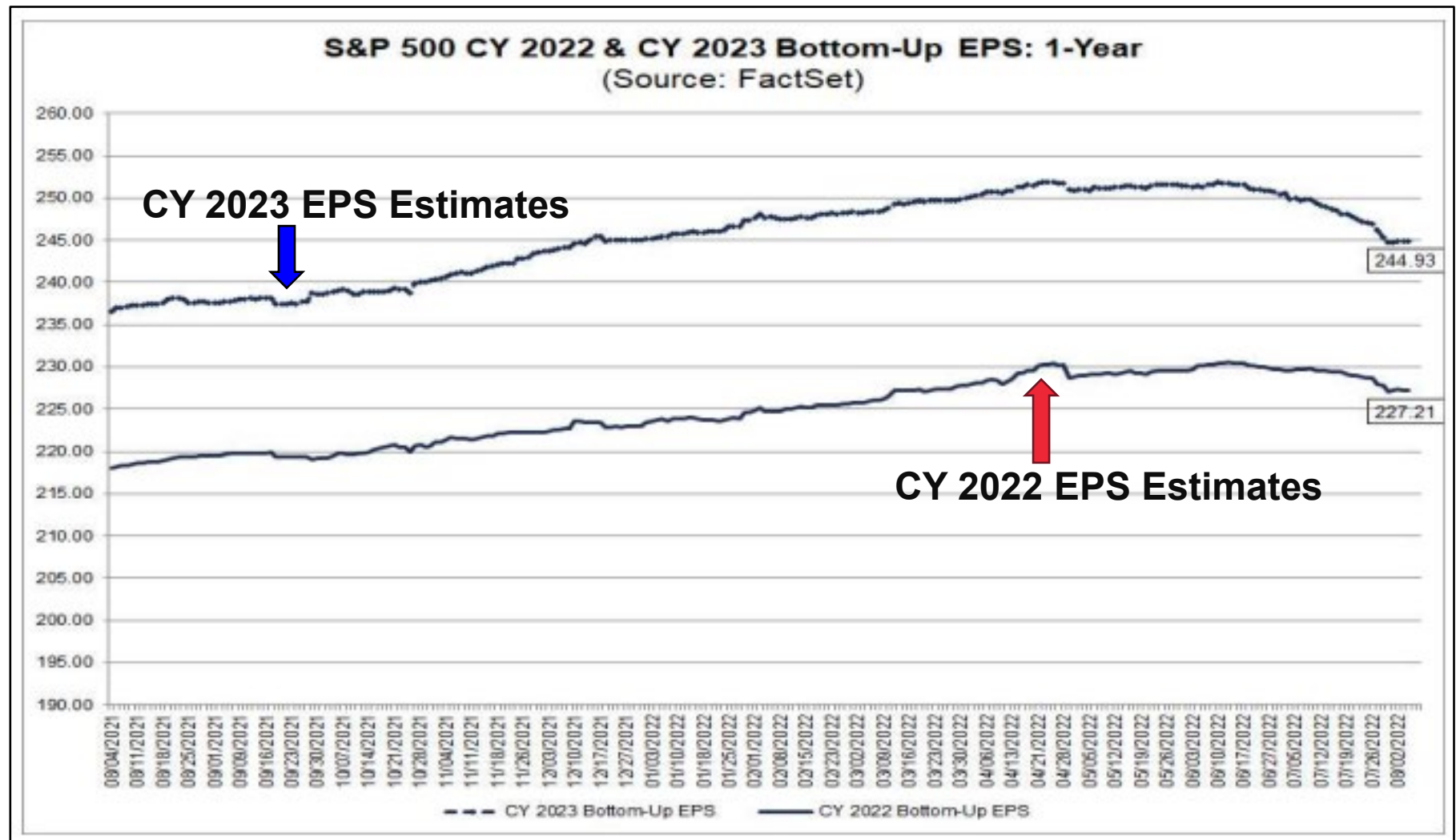


# Q2 Earnings Results Have Been Pretty Good



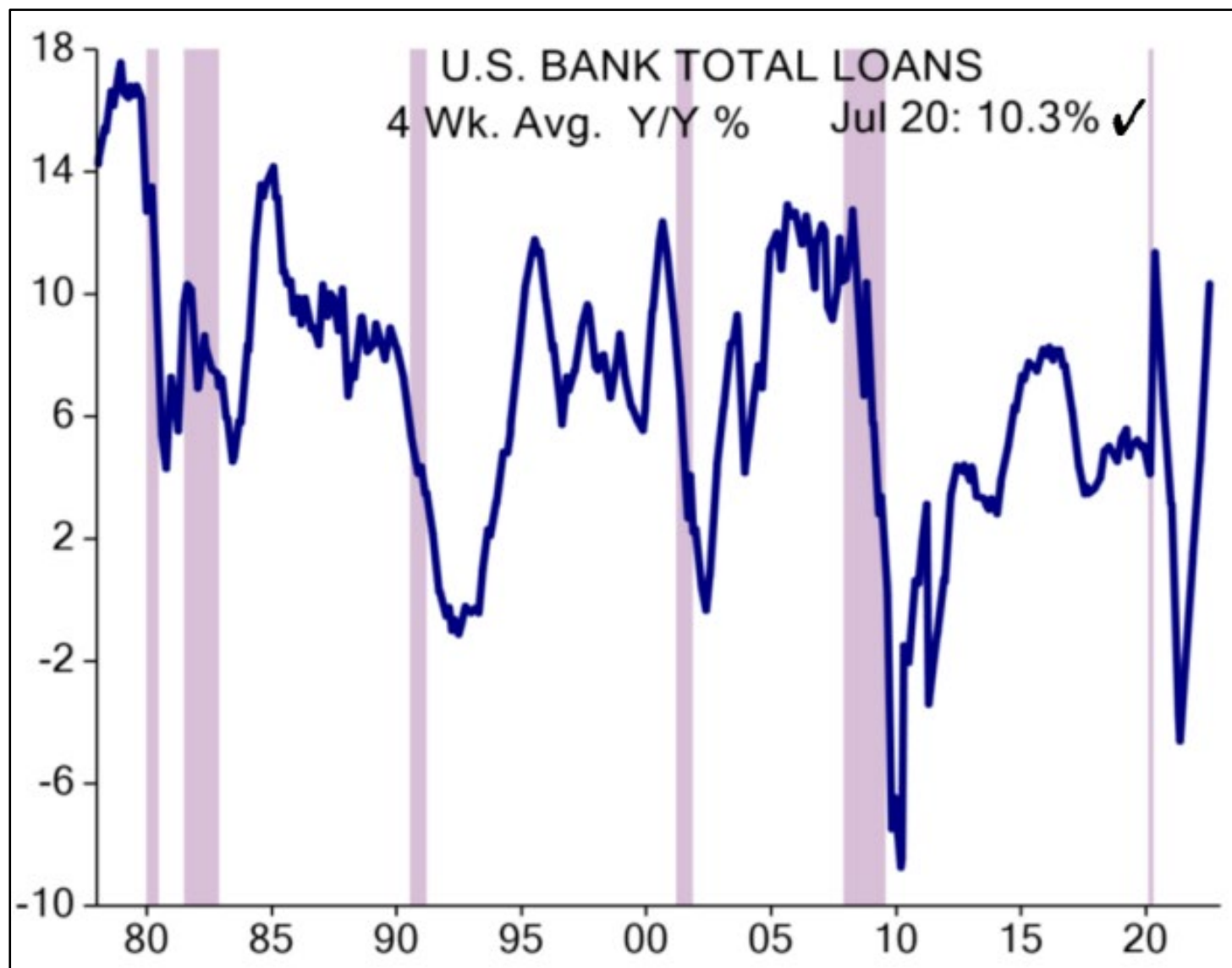
Source: FactSet Research Systems, 8/5/22

# '22 & '23 Corporate Profit Estimates Slowly Coming Down



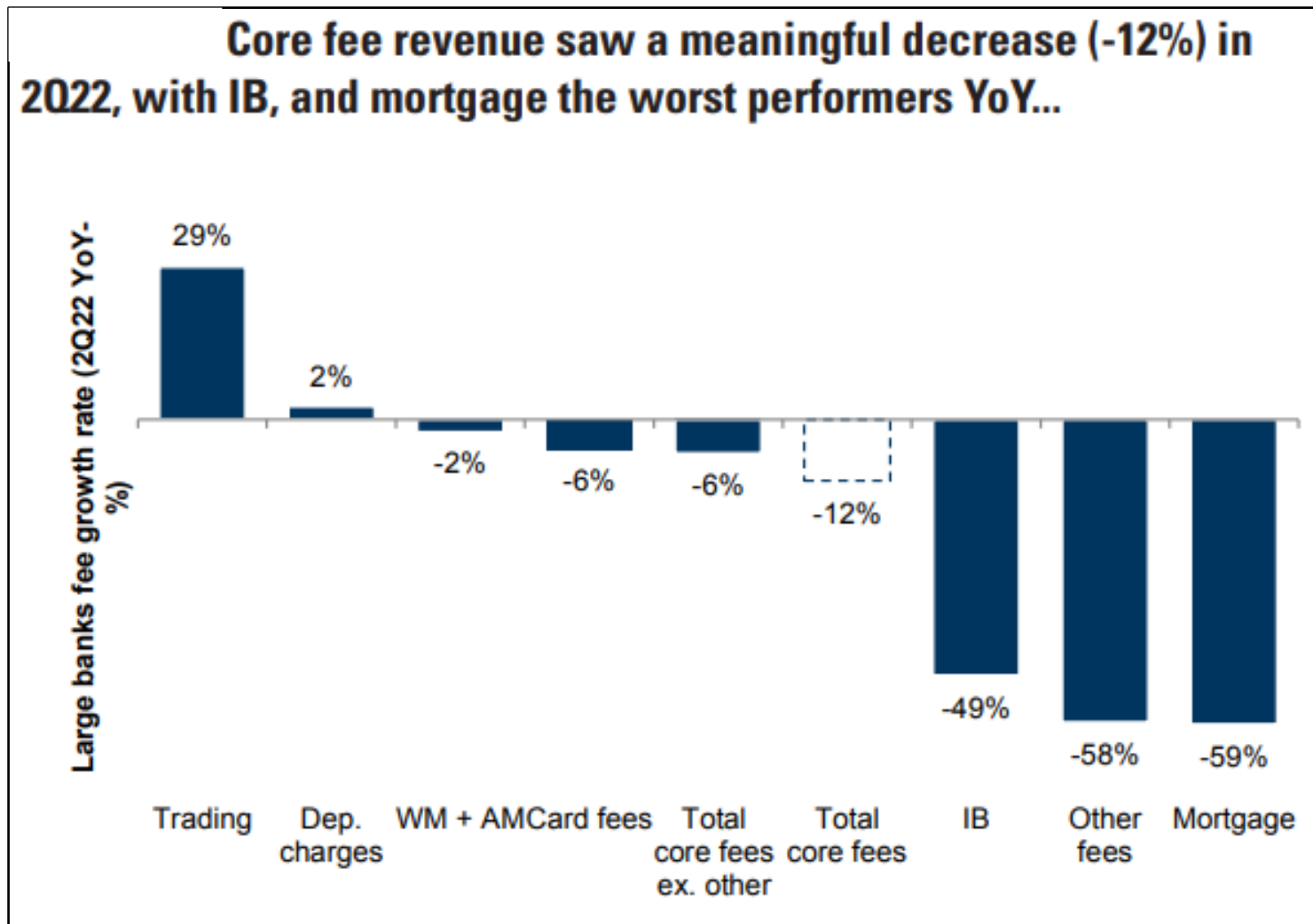
Source: FactSet Research Systems, 8/5/22

## Bank Loan Growth Among the Best in Decades ...



Source: Evercore ISI

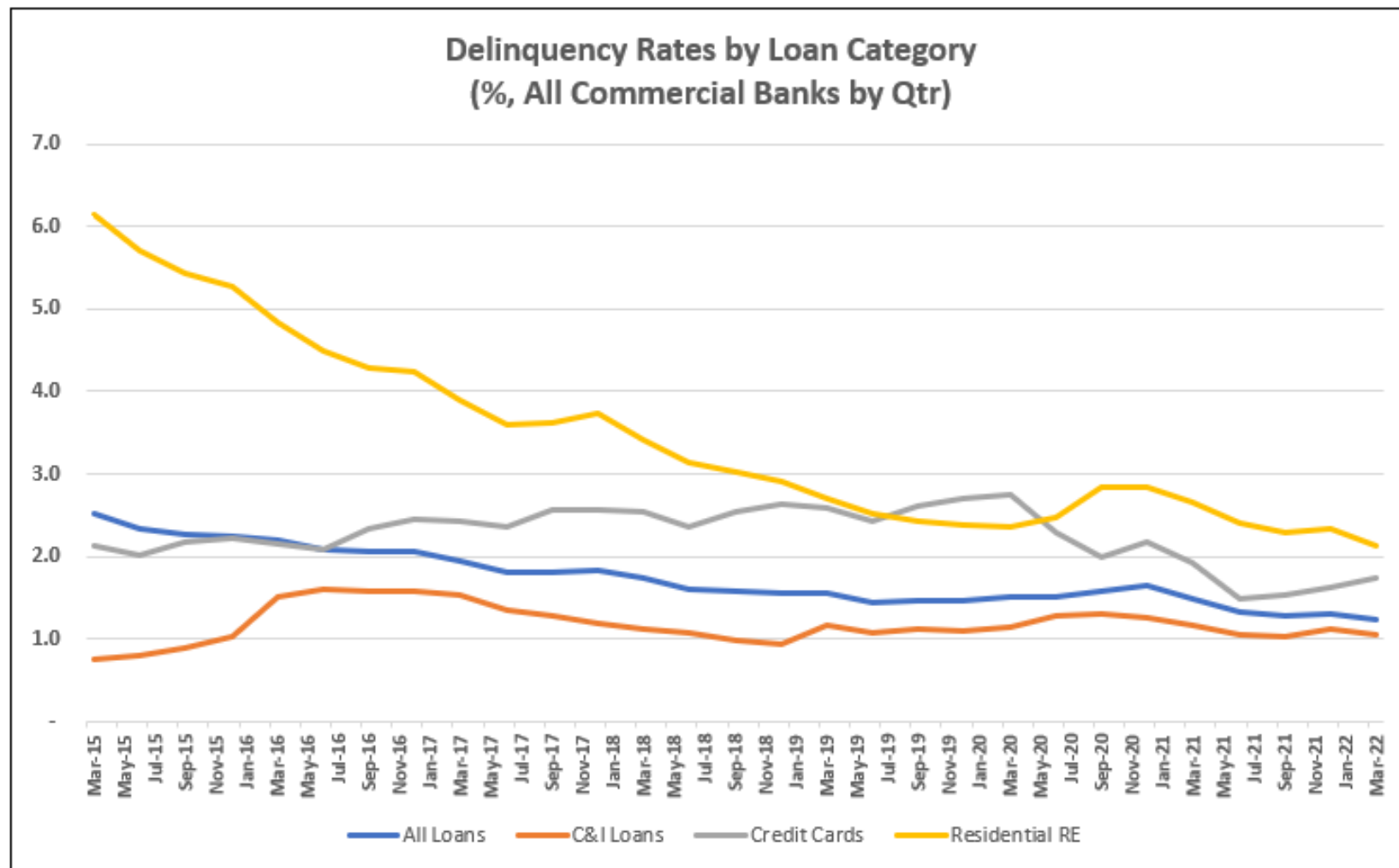
## ... While Other Lines of Business Under Pressure



Source: Goldman Sachs Investment Research

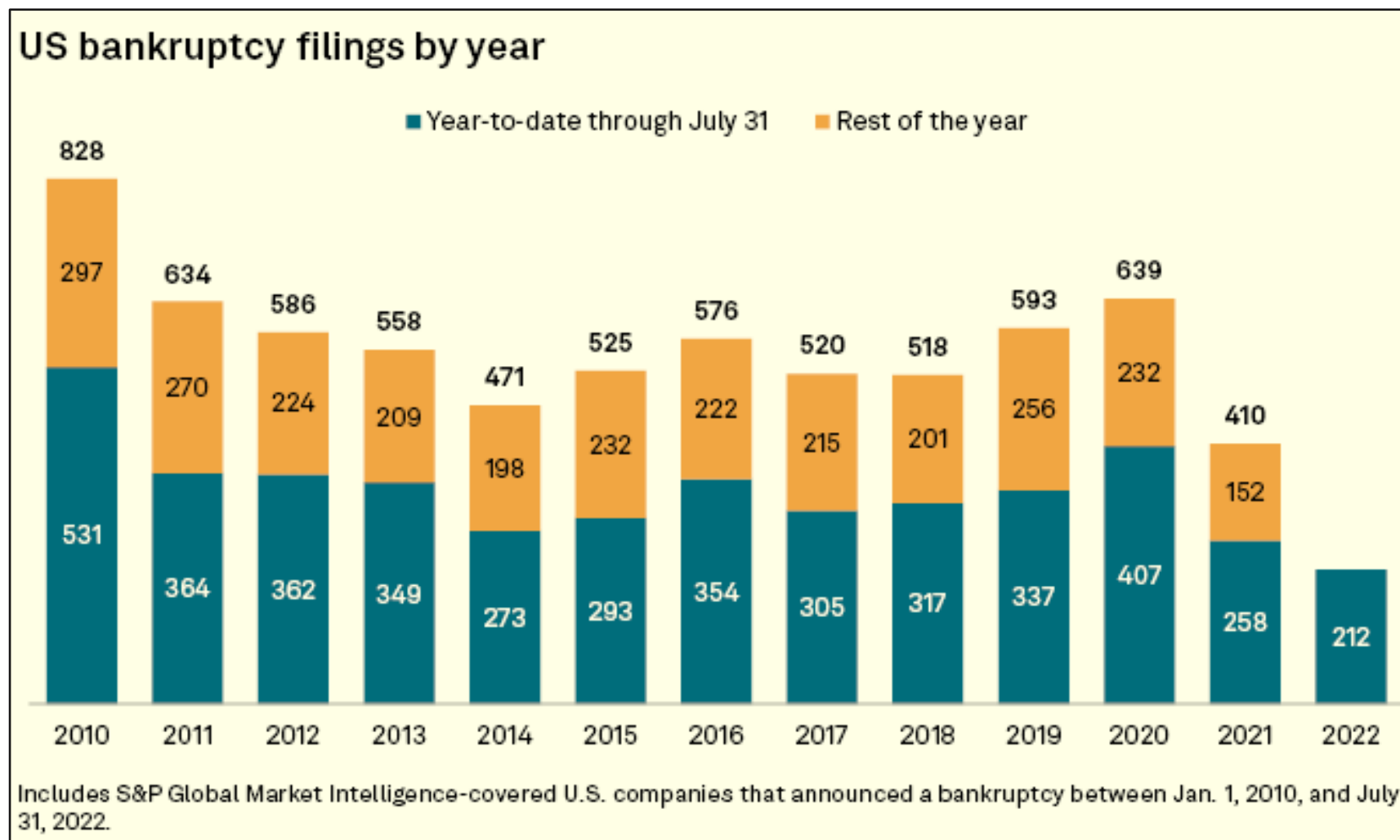


# Few Signs of Stress Among Borrowers/Loan Groups



Source: Board of Governors of the Federal Reserve System

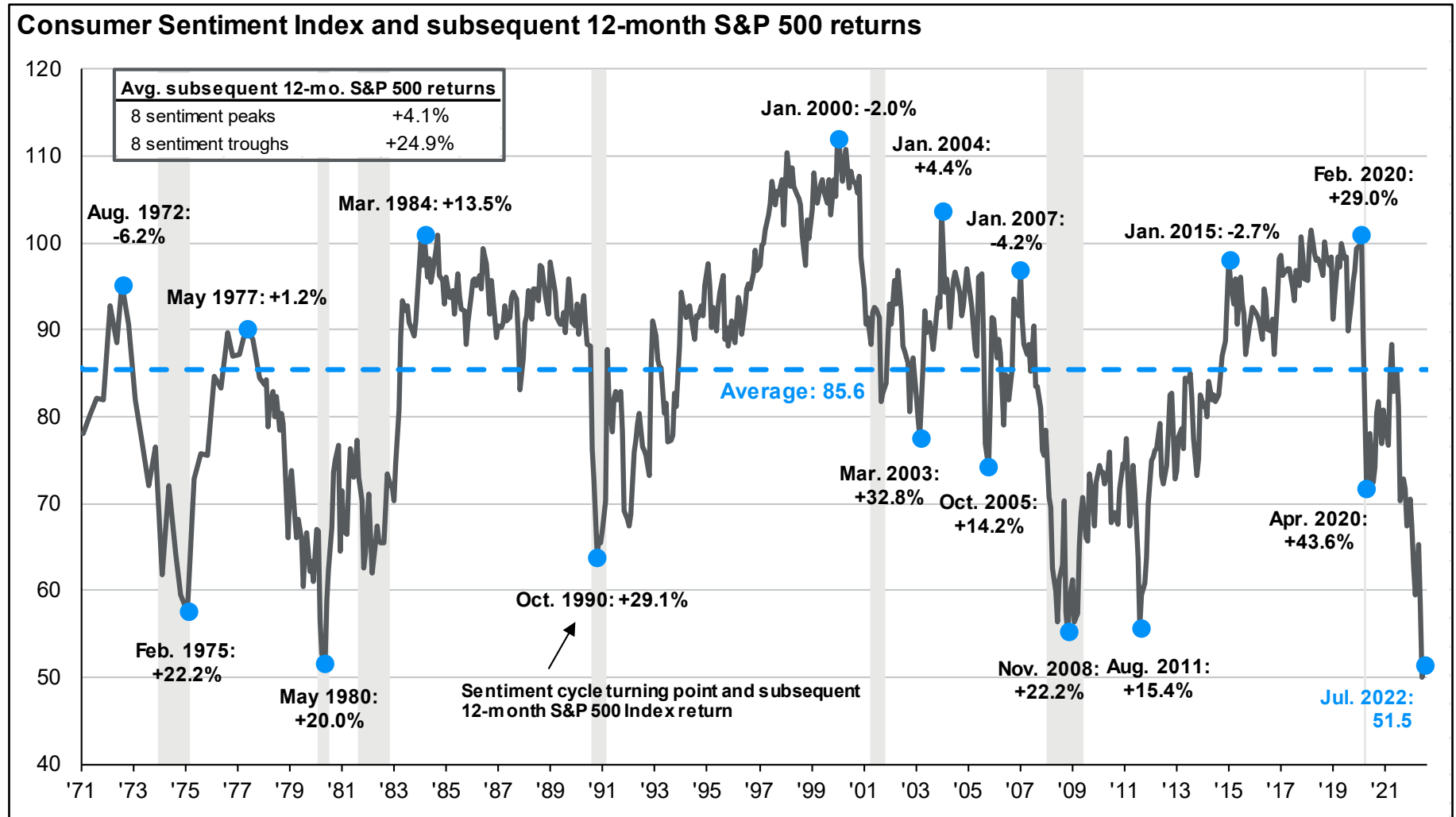
# YTD Bankruptcy\* Filings Well Below Historical Norms



Source: S&P Global Market Intelligence

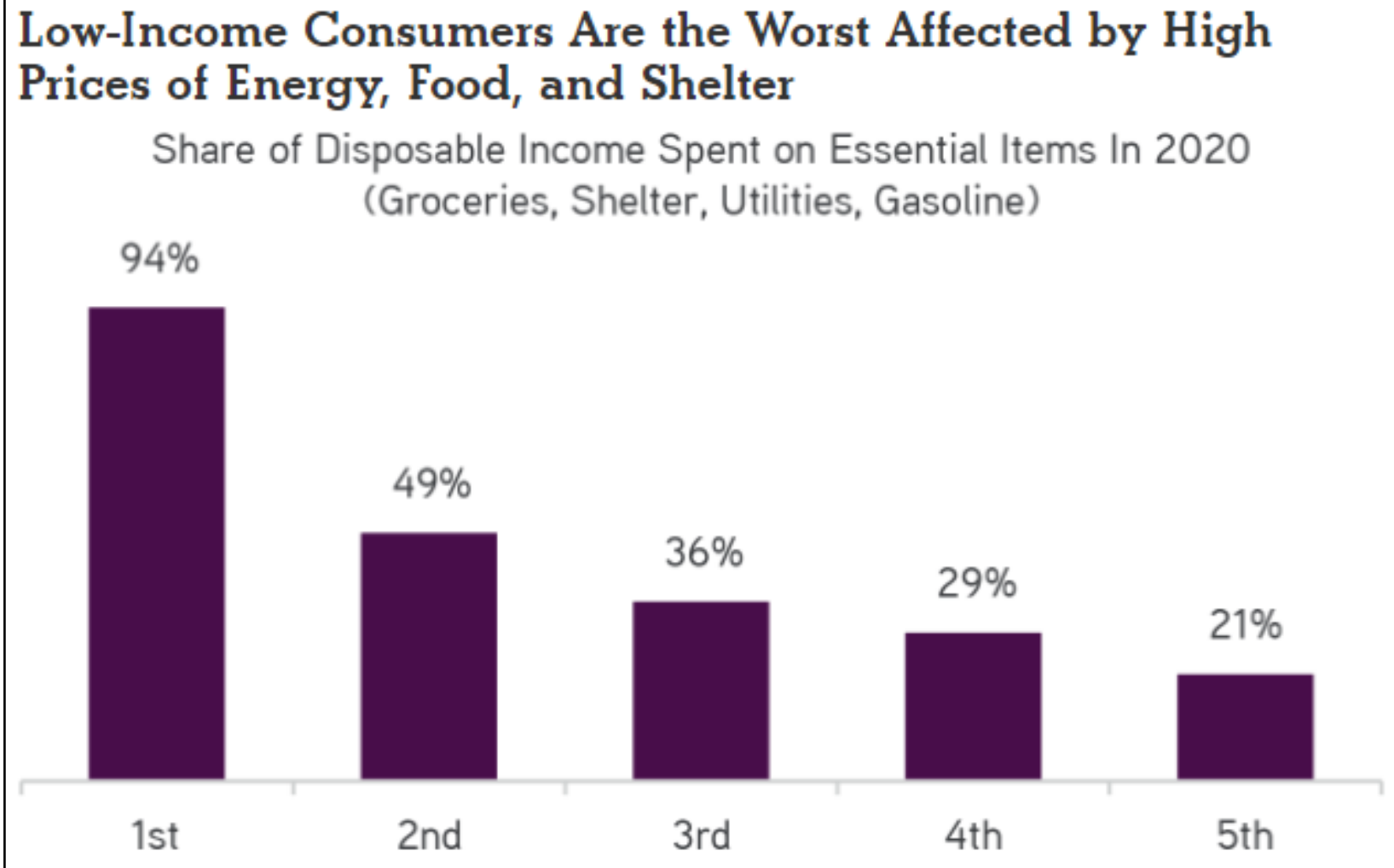
*\*Note: Bankruptcy data from S&P is limited to public/private companies with assets or liabilities greater than \$2B/\$10B at time of filing.*

# Consumer Sentiment Pressured



Source: J.P. Morgan

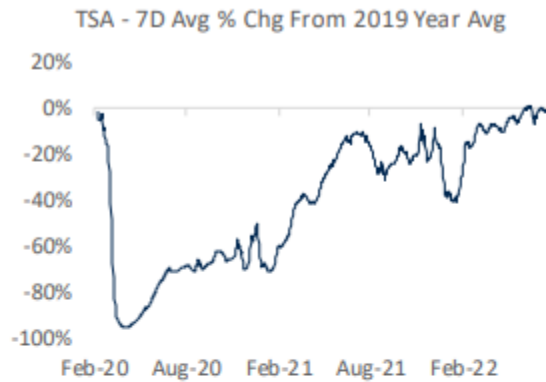
# Risks Signals From Lower-Income Consumer Cohorts



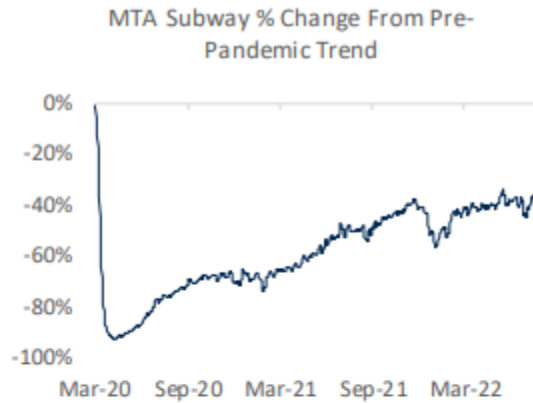
Source: KKR, Bureau of Labor Statistics

# Quick Check on Consumer Activity

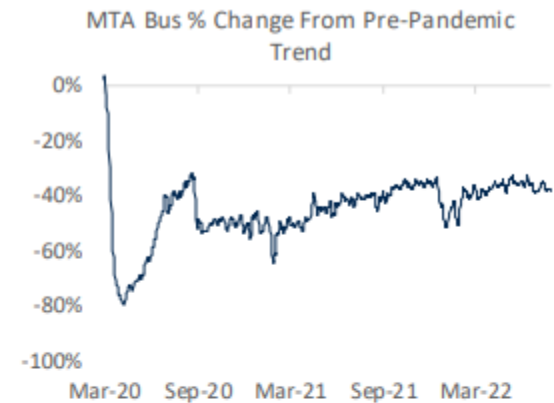
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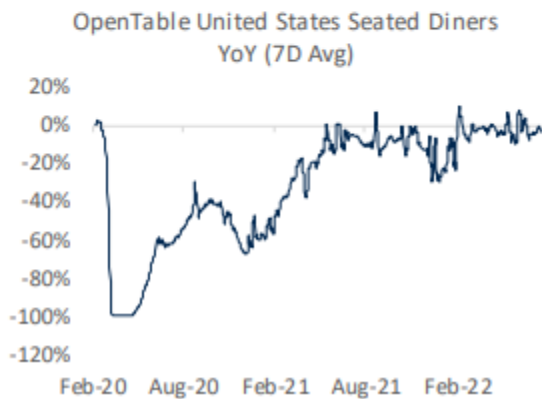
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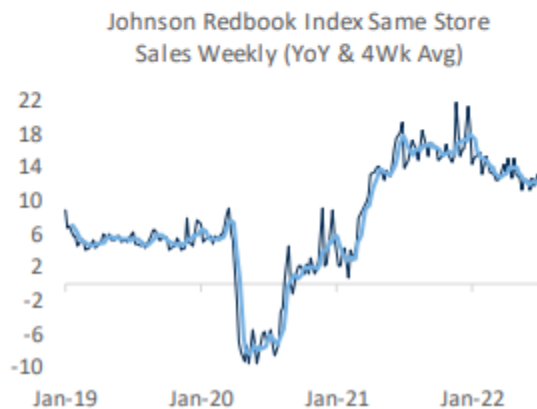
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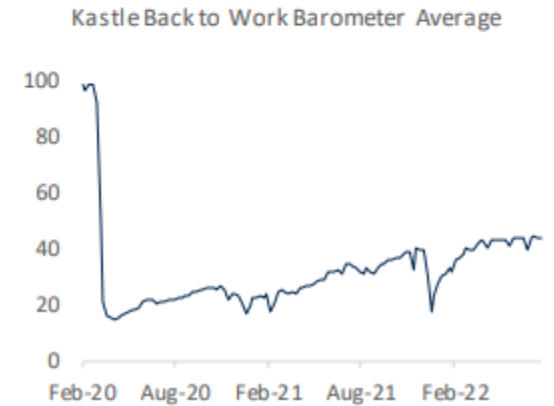
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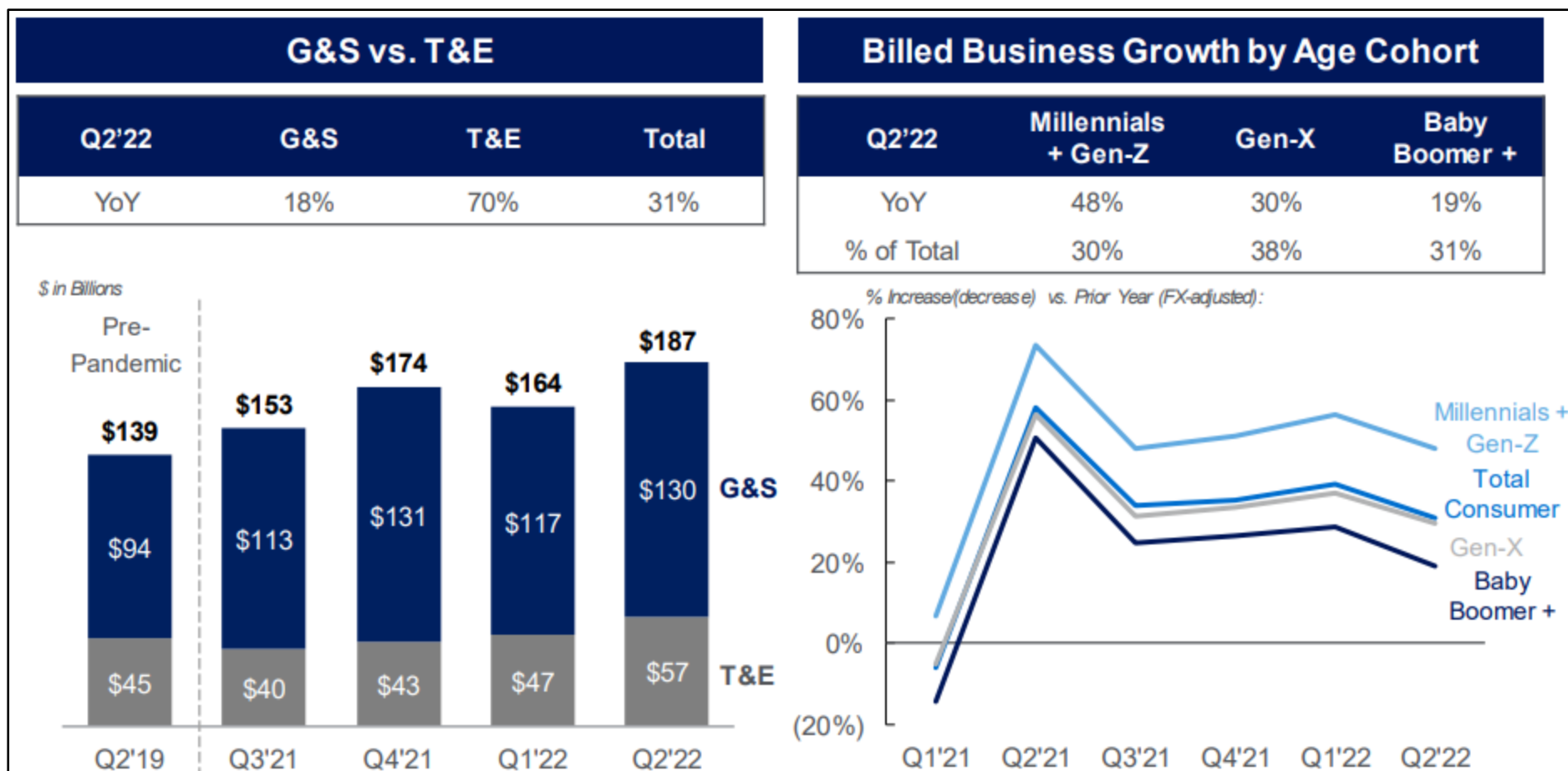


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Source: RBC

# Higher Income Consumer Spending Remains Robust



Source: American Express