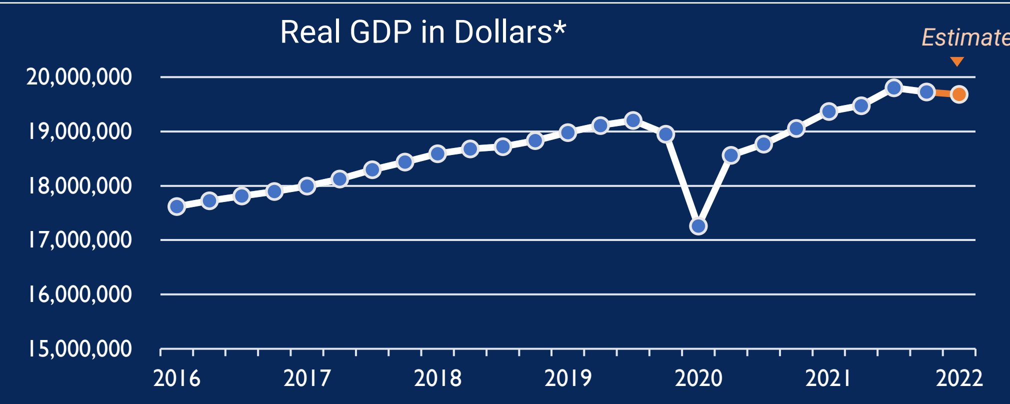
Economic Commentary

As of June 30, 2022

Bolton INVESTMENT

Other Indicators

	CPI	Unemployment	Sentiment	Crude Oil
Q2: 2021	5.4%	5.9%	86.4	$77
Q1: 2022	8.6%	3.6%	59.4	$107
Q2: 2022	9.1%	3.6%	50.0	$120



*Billions

Recession or Inflation?

The U.S. and global economies continue to face stresses, and if the GDP estimate holds, we will technically be in a recession. However, any recession is likely to be different in many ways from the last non-pandemic related one in 2008. Back then, unemployment was roughly 2% higher, the consumer was in much worse shape, the quality of lending in the housing market was much lower and, of course, inflation was not as high. CPI for the 2nd quarter of 2022 was 9.1%, and CPI for the 2nd quarter of 2008 was 5.0%. The Fed may be willing to risk a recession because it sees sustained inflation as a potentially greater menace.

The U.S. trade deficit narrowed as imports were held down by lower goods spending by American households and exports increased on energy shipments. The slower pace of trade flows in categories other than energy could be a sign of weaker global economic momentum.

Higher borrowing costs are making homes less affordable and driving down the number of Americans applying for mortgages. A measure of mortgage applications recently fell to its lowest level since 2000, the Mortgage Bankers Association said. Climbing housing costs will most likely keep inflation elevated this year, creating another challenge for Federal Reserve officials who want to see signs that price pressures are easing before slowing their interest-rate increases. Housing costs represent about 40% of core inflation.

Over the past year, wage increases have continued to exceed pre-pandemic levels, but those steady gains have been negated by high prices. When taking inflation into account, there hasn't been a single month with year-over-year real earnings growth since March 2021.

Spending also rose over the past year, and as with wages, it was outpaced by inflation. Americans are spending more because of high prices, but adjusted for inflation, they are actually consuming less.

Higher inflation not only means the buying power of workers' take-home pay is shrinking, but that the value of the dollars in their retirement plans won't go as far as they might have hoped. For those currently retired, inflation risk is very real.

Second Quarter Market Review

U.S. stocks declined broadly in the second quarter, adding to losses in the first quarter. The S&P 500 Index closed at 3785, down from 4530 on March 31. The index declined 8.7% in April, was nearly flat in May, and declined 8.3% in June.

In the U.S., value outperformed growth, and there was little difference between large and smaller capitalizations.

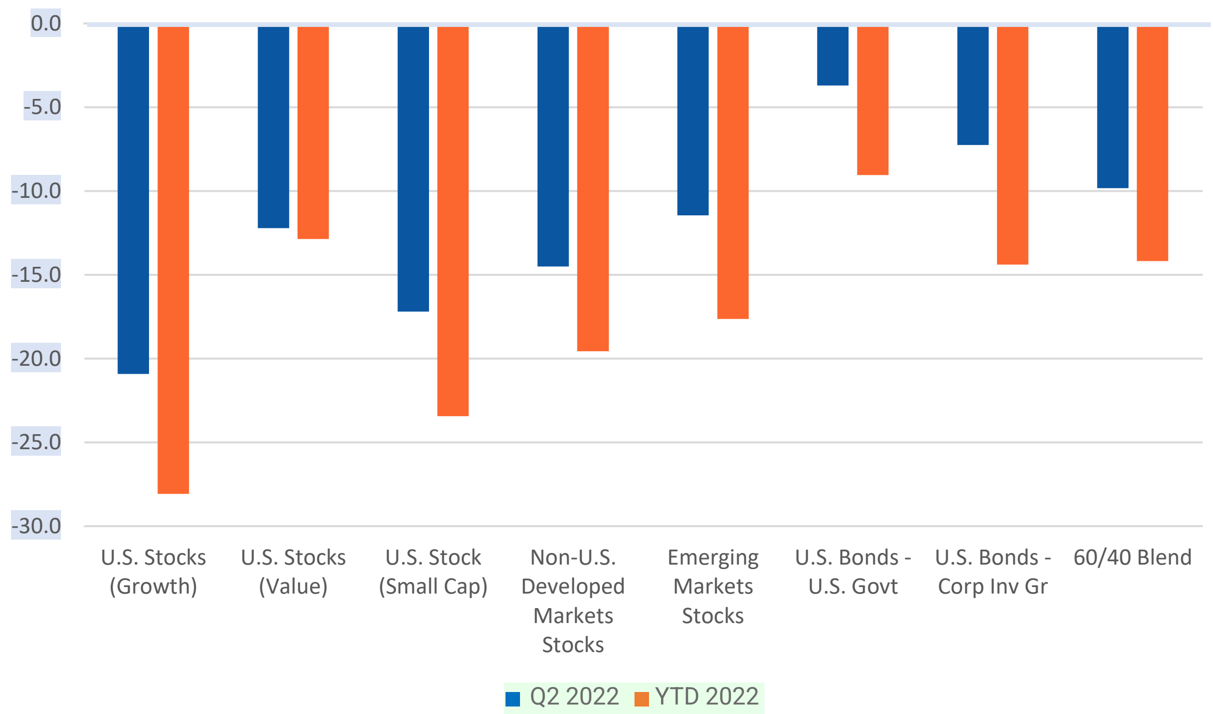
All sectors of the S&P 500 had negative returns. The largest detractors were Information Technology, which accounted for about one-third of the index decline, and Consumer Discretionary.

Among individual stocks, the largest detractors included most of the largest capitalizations: Apple, Amazon, Microsoft, Alphabet (Google), Tesla, and NVIDIA. Only 28 stocks in the index contributed more than 1 basis point of positive return, led by pharmaceutical companies Eli Lilly and Merck.

In the U.S., stocks had a negative returns; large cap value was the best performing segment

Outside the U.S., both developed and emerging markets declined. Within the emerging markets, the Hong Kong-based China 50 Index rose 3.3%.

Within U.S. fixed income markets, interest rates on U.S. Treasury bonds rose across the yield curve again. The US Aggregate Index fell 4.7%.



Asset class returns are represented by the following indexes: Russell 1000 Growth and Value, and Russell 2000 Index (U.S. Stocks), MSCI EAFE Index (Non-U.S. Developed Stocks), MSCI Emerging Markets Index (Emerging Market Stocks), Bloomberg Barclays U.S. Government Index (U.S. Bonds - Govt), and Bloomberg Barclays US Corporate Bond Index (U.S. Bonds – Corp IG). The Blend is 60% S&P 500/40% US Aggregate.

Drivers of Capital Markets Returns

- Fixed income investments are debt instruments typically issued by governments and corporations. They generally pay a periodic fixed amount of interest until maturity, at which time the principal is repaid. Investors in fixed-income instruments are **lenders**.
- Corporations can also raise capital by selling shares, also known as equity. Equity investors share in a company's success or failures over time. Investors in equity are **owners**.

The price of the S&P 500 Index as of June 30, 2022, was 3,785.38.

Returns to Lenders

Inflation ⬆ 9.1%

June's CPI was 9.1% above the month a year ago. Energy prices contributed 3.6% of the increase (vs. 2.4% in 1Q); the core rate was 6.0%.

Interest Rates ⬆ 0.66%

The yield of a 10-year U.S. Treasury bond rose from 2.32% on March 31 to 2.98% on June 30. The rate for a 2-year note rose 64 bps.

Credit Spreads ⬆ 0.38%

The yield spread of a generic A/BBB-rated corporate bond rose 38 basis points to 214 basis points. The yield spread measures the yield of 10 – 15-year corporate debt compared to U.S. Treasury Bonds of equivalent maturity.

Returns to Owners

Growth (GDP)

1Q: 2022	2Q: 2022
-1.6%	-0.9%*

Annualized real growth of GDP declined again in the second quarter. The weak point was an absolute decline in residential investment (housing). Consumer spending grew modestly, led by spending on services.

Profitability

2022E	2023E	%Change23E
$229.58	$250.61	9.2%

The consensus estimate of 2022 earnings for the S&P 500 rose 0.7% during the second quarter. The estimate for 2023 was 9.7% above 2022.

Valuation

2022E P/E	2023E P/E
16.5	15.2

On June 30, the price of the S&P 500 was 16.5x its estimated 2022 earnings. The multiple declined as the price declined and earnings estimates rose modestly.

**July 28, 2022 – Bureau of Economic Analysis advance estimate*