Wealth Advisory Market Update

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Market Update

To no one's surprise, markets stubbornly maintained a volatile mood the first few weeks of June. The markets did stage a slight recovery over the last few weeks, but on Monday the Federal Reserve leaked the possibility of a 75bps rate hike at their upcoming meeting to the *New York Times*. However, on Wednesday, we got just that. It was the biggest rate hike since Kurt Volker headed the Federal Reserve. Although it was big news, it was not all that surprising because inflation continues to run hot, not just in the US, but globally. We weren't surprised to see the negative reaction by the market. For over a year, we've explained in our newsletter, that the Fed was behind the curve with inflation stickier than what it believed. The results of this build up is that the Federal Open Market Committee (FOMC) policy is now backed into a corner. We see that inflation is not slowing. The historical way to combat increasing inflation is to raise rates and run-off the Fed balance sheet. On the other hand, growth in the US continues to slow. After printing -1.4% in the first quarter, it looks like the US is set to print its second negative GDP quarter in a row. This puts us in a technical recession.

The US Federal Reserve is not the only Central Bank tightening policy around the globe. In a surprising move, the Swiss National Bank (SNB) raised its benchmark interest rate by 50bps over the weekend. It also indicated that it would be reducing its equity portfolio. The Bank of England (BOE) also raised rates by 25bps to 1.25% and indicated more rate hikes were on the horizon. The actions around the globe are taking us into a new era of tighter monetary policy. It seems the days of easy money and low interest rates could be a thing of the past, at least until the next major drawdown in the market or deep economic recession.

With tighter monetary policy comes a valuation reset in the equity markets. Slower economic growth along with cost pressures are going to weigh on margins for the foreseeable future. The equity markets were in need of a revision to the mean in terms of valuation and Central Banks provided the kindling to get that started. With the market currently trading at 17x forward earnings estimates we still see more downside to come, not only from multiple contraction but also from downward earnings revisions. As we have said many times, the Tech sector was in a dot.com style bubble, and we saw the air come out of many of the most loved names. In our opinion, the selloff in those type of stocks is still not over. During times of economic uncertainty and increasing costs you do not want to be positioned in cash burning, non-profitable companies.

Our strategy remains the same. We will continue to invest in high quality companies, with dominant market share and pricing power. We still believe there are pockets of undervaluation that we can take advantage of. However, just because a company is trading below its intrinsic value does not mean it will not go down with the market. In today's environment, with so many passive investors, when major selling programs hit, everything gets taken down. Over the last few weeks, we raised cash in the equity portfolios and we are looking for entry points. It is important to understand that the market will always bottom out before the economy, so when things seem most dire, it is usually the time to buy.

This is a snapshot of the current trend and it does not mean present conditions will remain. Economic data coming out in the near future could alter our outlook. If this occurs, we will be quick to assess and make adjustments to our portfolios. As always, we continue to navigate this difficult environment to the very best of our ability. We at AMB thank you for your support and for allowing us to partner with you in reaching your financial goals.

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