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Wealth Advisory Market Update
May 17, 2022

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Market Update

Throughout last month, investor sentiment continued to deteriorate as many economists agree that the US looks to be heading for a recession. Familiar recession precursors have been highlighted this month, particularly rising interest rates on the back of high inflation. Inflation continues to be rampant and earnings results disappointed with signs of cost pressure weighing on margin through lackluster guidance revisions. Our main focus continues to be high-quality value equities with pricing power as high-growth, non-profitable technology stocks continue to be corrected.

The Fed and Inflation

All eyes continue to be on the Fed and their planned actions in the face of inflationary pressure which will play a large role in dictating the potential length and severity of a recession. Earlier this month they increased their benchmark interest rate by 50bps, demonstrating the most aggressive step yet in the fight against inflation. Last week's headline CPI was once again hotter than expected, with a 0.3% month-over-month increase. While above expectations, inflation finally decelerated on a year-over-year basis with April LTM at 8.3% down from March LTM of 8.5%. With both the CPI and PPI coming in above expectations, a 75bps hike from the Fed is back on the table. Along with the US, the rest of the developed world is being challenged by inflationary pressures, causing a worldwide slowdown. The war in Ukraine, zero-COVID policy in China and the long-term effect from fiscal and monetary policy continue to be the driving forces behind inflation. Fed speakers will be out in force this week, however not much should change after the inflation figures last week. We still view it as unlikely that the Fed gets to 10 raises this year.

Equities

Earnings season more deeply revealed investor sentiment. 91% of S&P 500 companies have reported, with a 9.1% growth rate QoQ, the lowest since Q4 2020. Forward guidance has been unimpressive. Growth stocks, especially non-profitable tech, still have the most downside despite many falling more than 50%. A short-term bottom may have been put in, as negative sentiment is at historic levels. If this correction follows history, we'll need the S&P to get to 14x forward earnings or around 3200. As painful as it would be, it would be healthy for the market moving forward, as too much excess capital and liquidity drove this bubble and it had to deflate at some point. Our long-term strategy and focus on high-quality value with pricing power is positioned well in this environment.

Fixed Income

For fixed income, the short end of the yield curve continues to look attractive at current levels. Consistent with last month's update, we're going to continue to stay shorter in our duration and focus in the one-to-three-year area of the curve. Similar to our equity strategy, our focus is on quality in the credit markets with government securities and investment grade bonds.

We continue to monitor the Federal Reserve's remarks, geopolitical environment and economic indicators closely, and expect continued volatility. We will continue to have our finger on the pulse of each of these situations and will make changes dependent on shifting scenarios. We at AMB thank you for your support and allowing us to partner with you in reaching your financial goals.

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