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July 2022 | Markets Summary

Equity Market

The market bounced back strongly in July after a weak June. The S&P 500 registered a 9.22% total return, the best return since November 2020. The rally in the S&P 500 following a weak month (June -8.25%) is unusual. Since 1960, the S&P 500 declined by 6% or worse followed by a rally of 6% or higher eleven previous times. An analysis of 3- and 6-month returns past the inflection points suggest higher returns ahead. However, the common thread tying together earlier patterns is the Federal Reserve was accommodative in monetary policy and lowering short term rates, the opposite of what we are experiencing now.

Fixed Income Market

Bond prices rallied in July with yields declining along the Treasury curve. Tighter monetary policy tightening supported higher short-term yields; however, increasing concern over future economic growth pushed long-term Treasury yields lower. This dynamic has triggered meaningful curve inversion when viewing the spread on the 10- and 2-year Treasuries. Although this spread measure briefly inverted in 2019, the current inversion is the most negative in over 20 years. Corporate yields remained steady during July causing further spread widening. Credit spreads across quality ratings are now well above the average of the past ten years.