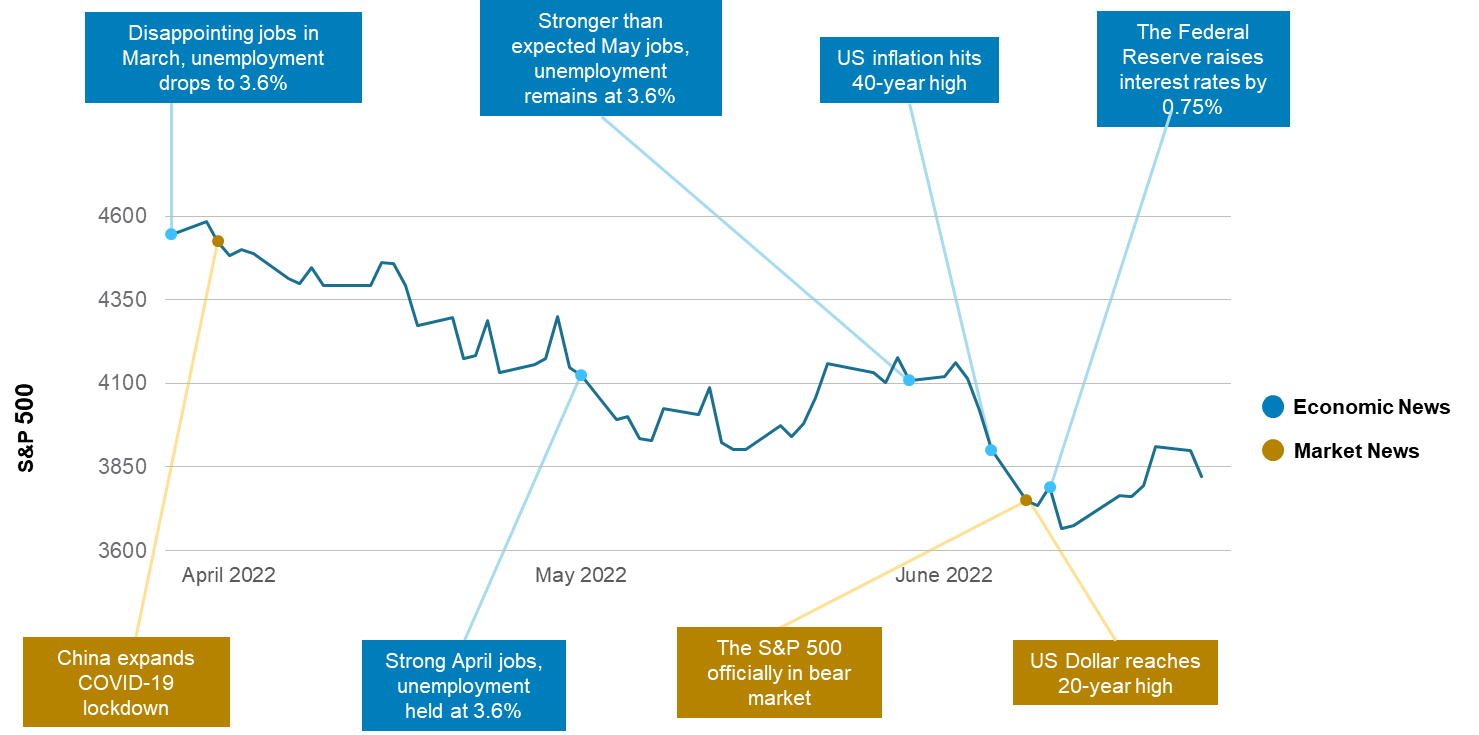
**Market Review**

Source: Zephyr StyleADVISOR

* **Record high inflation, rising interest rates, and recession fears led stocks and bonds lower** **in the second quarter of 2022 (2Q22).** For just the second time in 40 years, bonds and stocks both posted losses for two consecutive quarters.[[1]](#endnote-1) US equities ended the quarter at -16.1% and entered an official bear market (defined as a drop of 20% from last peak). Despite the pain from the first half of 2022, US equities are still up an average of 8.4% per year over the last three years.[[2]](#endnote-2)



Source: Zephyr StyleADVISOR, Standard & Poor’s, FactSet, CNBC, MarketWatch

* **Within US equities, all 11 sectors suffered losses in 2Q22.** Amid recession fears,Consumer Staples andUtilities, often considered defensive sectors, suffered the least at -4.6% and -5.1% respectively. On the other hand, growth-oriented technology-related sectors like Communication Services and Consumer Discretionary, were the worst performers at -20.7% and -26.2% respectively. Energy is the only sector with positive returns of 31.8% for the year despite losses of 5.2% in the quarter.
* **Rising interest rates continued to hurt growth stocks.** Growth stocks are often synonymous with the high-flying companies in the markets like technology while value stocks are often considered undervalued, steady, and sometimes even boring. The gap in performance between value and growth stocks across size and style was stark and was significantly in favor of larger and value-oriented segments as investors have sought safety amid looming uncertainties. Large cap value stocks outperformed large cap growth by 8.7% for the quarter and over 15% for the year.
* **International equities fared better than US equities in 2Q22 despite the ongoing war in Ukraine and China’s economic toll from zero COVID policy.** Developed international and emerging markets ended 2Q22 at -14.3 % and -11.3% respectively.A strong dollar also had a significant impact. Generally speaking, a stronger dollar translates to lower returns for international investments. This can be seen in its local currency returns for developed international, emerging markets which ended 2Q22 at -7.6% and -8.0% respectively.
* **Bonds extend their losses in 2Q22.** US bonds fell 4.7% in the quarter led by the Fed’s aggressive interest rate increases. After raising the rate by 0.25% in March, the Fed amped up its effort with a 0.5% increase to the funds rate in May followed by a 0.75% increase in June. Despite higher inflation, TIPS also fell 6.1% due to rising rates. Longer-term Treasuries, which have the greatest sensitivity to interest-rate changes, were the hardest hit and fell 11.9%. US high yield bonds fell 9.8% due to the flight to quality stemming from recession fears. Lastly, a stronger dollar and inflation woes also led international bonds lower for the quarter.
* **With the exception of oil prices, broad commodities and gold also fell in 2Q22.** Oil prices extended their climb due to Russia’s war against Ukraine. At the same time, key commodities including gold, wheat, and copper declined over concerns of a global economic slowdown. Gold prices fell 7.6% for the quarter and are down 1.5% for the year and gold has failed to meet expectations as an inflation hedge in 2022**.** Expectations for higher interest rates in the US led the dollar to rally 6.3% for the quarter and 9.1% for the year. Finally, US REITs lost 14.7% over concerns of rising costs due to higher interest rates.

Asset classes are represented by the following indexes:

|  |  |
| --- | --- |
| **US Equities** | **S&P 500** – is an unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large cap companies) representing approximately 75% of the investable US equity market. |
| **International Equities** | **MSCI EAFE** – is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries considered to represent developed markets, excluding the U.S. and Canada. |
| **Emerging Markets Equities** | **MSCI Emerging Markets** – is a free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets. |
| **China** | **MSCI China -** measures the performance of small-cap equities in developed market countries around the world, excluding the U.S. and Canada. The index covers approximately 14% of the market cap in each country. |
| **US Small Cap Growth** | **S&P 600 Growth -** measures the performance of the small cap growth segment of the US equity market. |
| **US Small Cap Value** | **S&P 600 Value -** measures the performance of the small cap value segment of the US equity market. |
| **US Mid Cap Value** | **S&P 400 Value** – measures the performance of the mid cap value segment of the US equity market. |
| **US Mid Cap Growth** | **S&P 400 Growth** – measures the performance of the mid cap growth segment of the US equity market |
| **US Large Cap Value** | **S&P 500 Value** – measures the performance of the large cap value segment of the US equity market |
| **US Large Cap Growth** | **S&P 500 Growth** – measures the performance of the large cap growth segment of the US equity market |
| **US Bonds** | **Bloomberg US Aggregate** —measures the market of USD-denominated, investment grade, fixed-rate taxable bond market of SEC-registered securities, including bonds from the Treasury, government-related, corporate, mortgage-backed securities (agency fixed-rate and hybrid ARM passthroughs), ABS and CMBS sectors. US Agency Hybrid Adjustable Rate Mortgage (ARM) securities were added to the US Aggregate Index on April 1, 2007. |
| **International Bonds** | **Bloomberg Global Aggregate ex USD** - is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification. |
| **Emerging Markets Bonds** | **Bloomberg Emerging Markets USD Aggregate** - is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification. |
| **TIPS** | **Bloomberg US TIPS** -measures the performance of inflation-protected securities issued by the US Treasury. |
| **US Long Treasuries** | **Bloomberg Long Treasuries** - measures the performance of long-term US Treasury bonds, including all publicly issued securities that have a remaining maturity of ten or more years, are: non-convertible, denominated in US dollars, rated investment-grade, fixed-rate and have $250 or more of outstanding face value. |
| **High-Yield Bonds** | **Bloomberg US Corporate High Yield** - measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody’s, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt. |
| **Utilities** | **S&P 500 Sector Utilities -** measures the performance of companies that product, generate, transmit or distribute electricity, water or natural gas, and also includes power producers & energy traders and companies that engage in generation and distribution of electricity using renewable sources. |
| **Consumer Staples** | **S&P 500 Sector Consumer Staples** - measures the performance of companies involved in the development and production of consumer products including: food and drug retailing, beverages, food products, tobacco, household products and personal products. |
| **Communication Services** | **S&P 500 Sector Communication Services -** measures the performance of companies from the media, retailing, and software & services industries in the U.S. |
| **Consumer Discretionary** | **S&P 500 Consumer Discretionary Sector** - measures the performance of companies involved in industries such as: automobiles and components, consumer durables, apparel, hotels, restaurants, leisure, media and retailing. |
| **Real Estate** | **S&P 500 Sector Real Estate** - measures the performance of companies from the following industries: real estate management & development and REITS, excluding mortgage REITS. |
| **Energy** | **S&P 500 Sector Energy -** measures the performance of companies involved in the development and production of crude oil, natural gas and provide drilling and other energy-related services. |
| **US REITs** | **FTSE NAREIT All Equity REIT -** measures the price of physical commodities futures contracts traded on US exchanges, except aluminum, nickel and zinc, which trade on the London Metal Exchange. Weightings are determined by rules designed to insure diversified commodity exposure. |
| **Gold** | **Bloomberg Sub Gold** - measures the price of gold futures contracts, reflecting the return of underlying commodity futures price movements quoted in USD. |
| **Commodities** | **Bloomberg Commodity** - dynamically rebalances exposure to maintain a 10% volatility target and represents portfolios consisting of the S&P 500 index and a cash component accruing interest. Uses S&P 500 methodology and overlays algorithms to control the index risk at specific volatility targets. |
| **US Dollar** | **US Dollar Index** - measures the value of the US dollar relative to the value of a 'basket' of currencies of the majority of the U.S.'s most significant trading partners. Factors the exchange rates of six major world currencies: euro, Japanese yen, Canadian dollar, British pound, Swedish krona and Swiss franc. |

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104362 | C22-18967 | 07/2022 | EXP 07/31/2024

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1. Source: Morningstar. 14 Charts on Market’s Second-Quarter Performance [↑](#endnote-ref-1)
2. Source: FactSet [↑](#endnote-ref-2)