

Markets marched expeditiously higher in July as investor optimism increased on signs that inflation may be softening. The S&P 500 index (large-cap US companies) increased more than 9%, the best monthly return since 2020¹. Inflation has been at the center of concern for most of the year, particularly its potential degrading impact on household optimism and spending. Additionally, investors are concerned that high headline inflation may force the US Federal Reserve to continue to raise interest rates aggressively in order to dampen demand for goods and services in an effort to control rising costs.

Below is a summary of our opinion and outlook for the US economy and markets, and the letter that follows provides more detail regarding the activities of 2022 so far, and how that influences recommended positioning going forward.



Economy

- Labor
- Earnings
- **Sentiment**
- Inflation
- Financial Conditions



Valuations

- Equity
- Credit



Technical

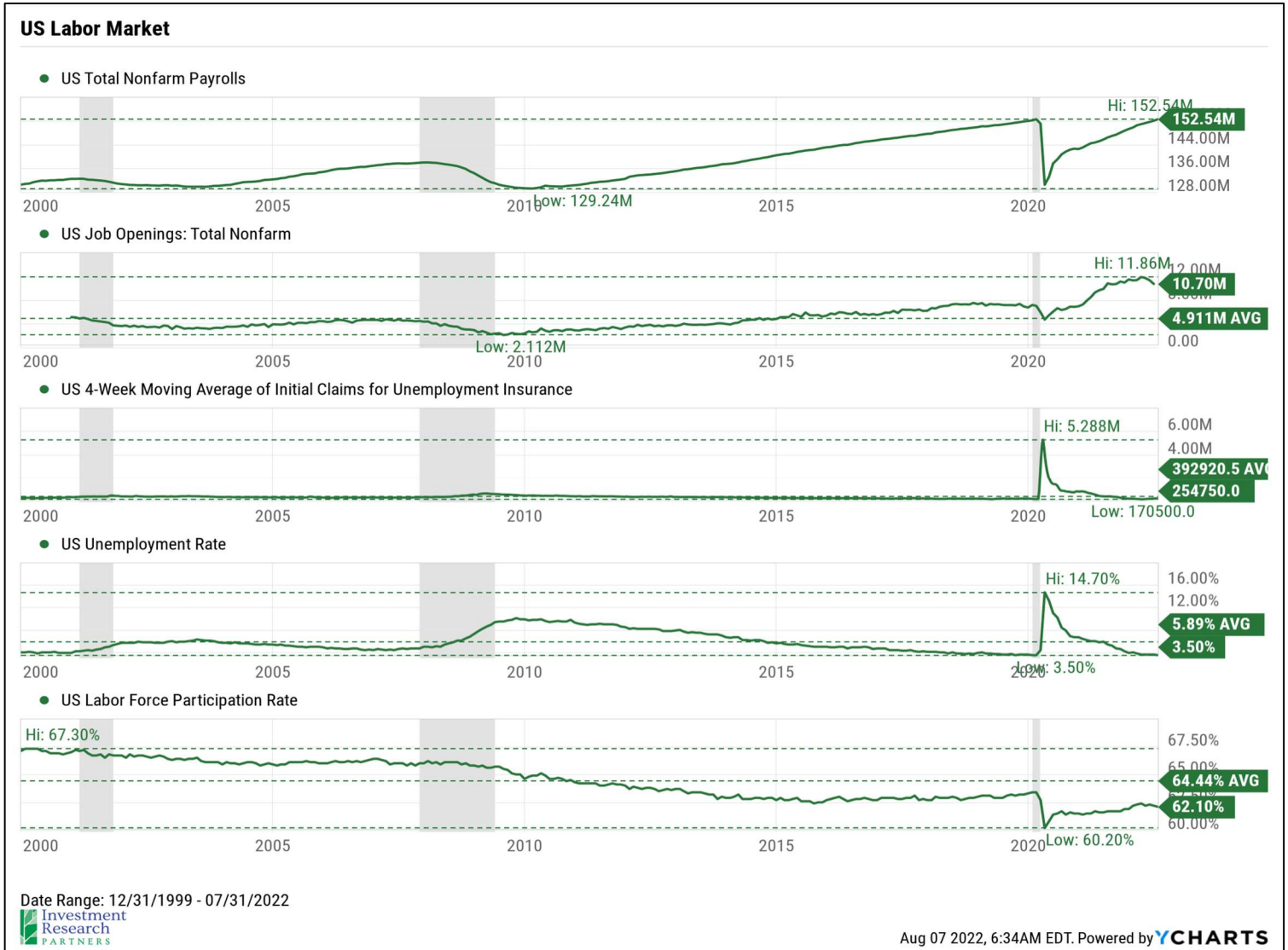
- Trend
- Sentiment

- Economic growth has begun to soften, primarily as a result of higher interest rates and inflation, which have sapped household sentiment.
- The labor market remains a key pillar of economic strength as jobs and job openings are plentiful.
- The US Federal Reserve was forced to raise interest rates faster than previously communicated and expected, which has caused risk assets like stocks to reprice lower this year.
- Stocks and credit instruments are trading at better prices mid-year than six months ago, and there still exists significant dispersion across companies and industries which should allow active investors to add value.
- Investor sentiment is at very low levels, which may present a longer-term buying opportunity and signal a near-end for market selling.

¹ Source: YCharts

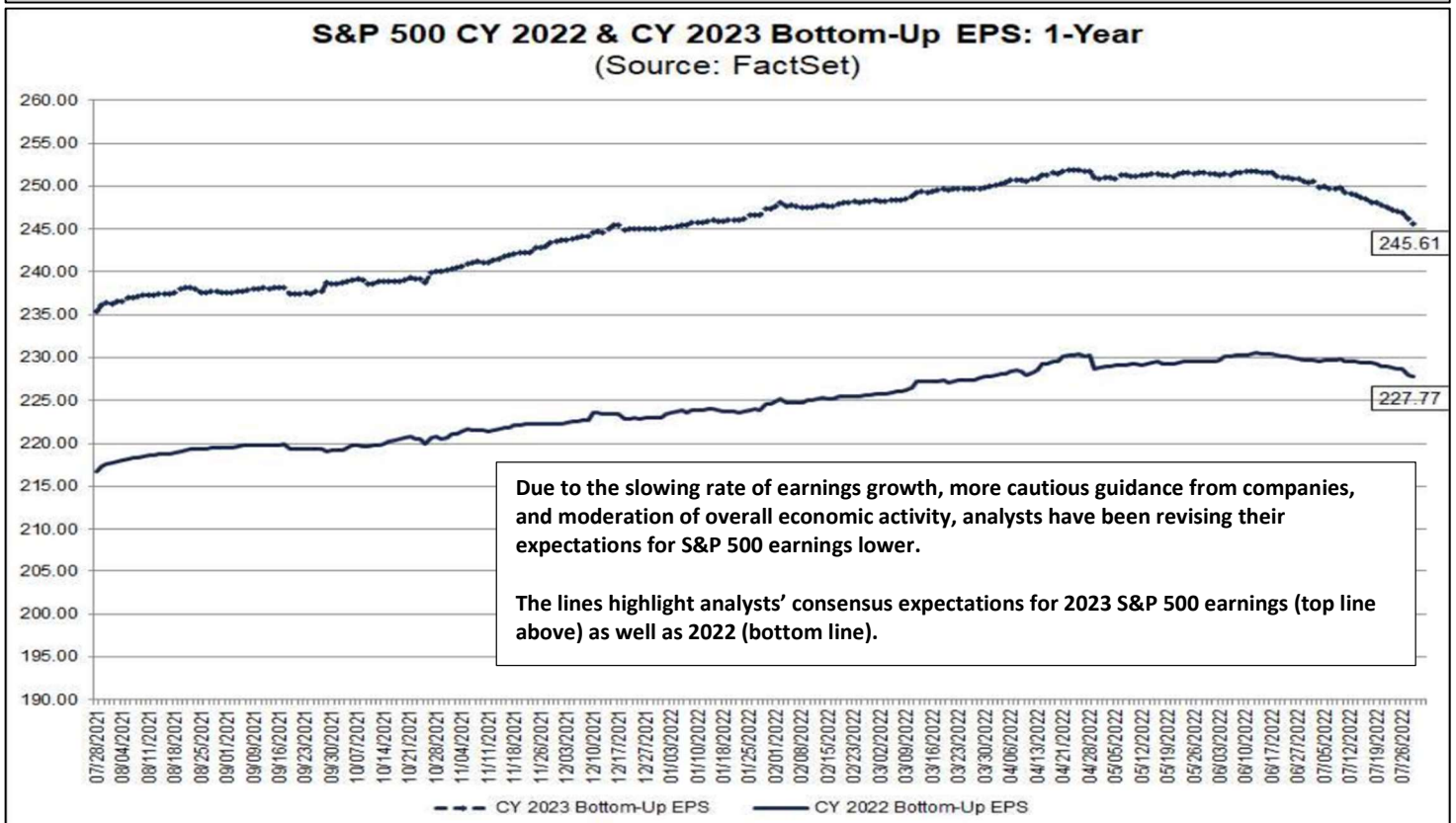
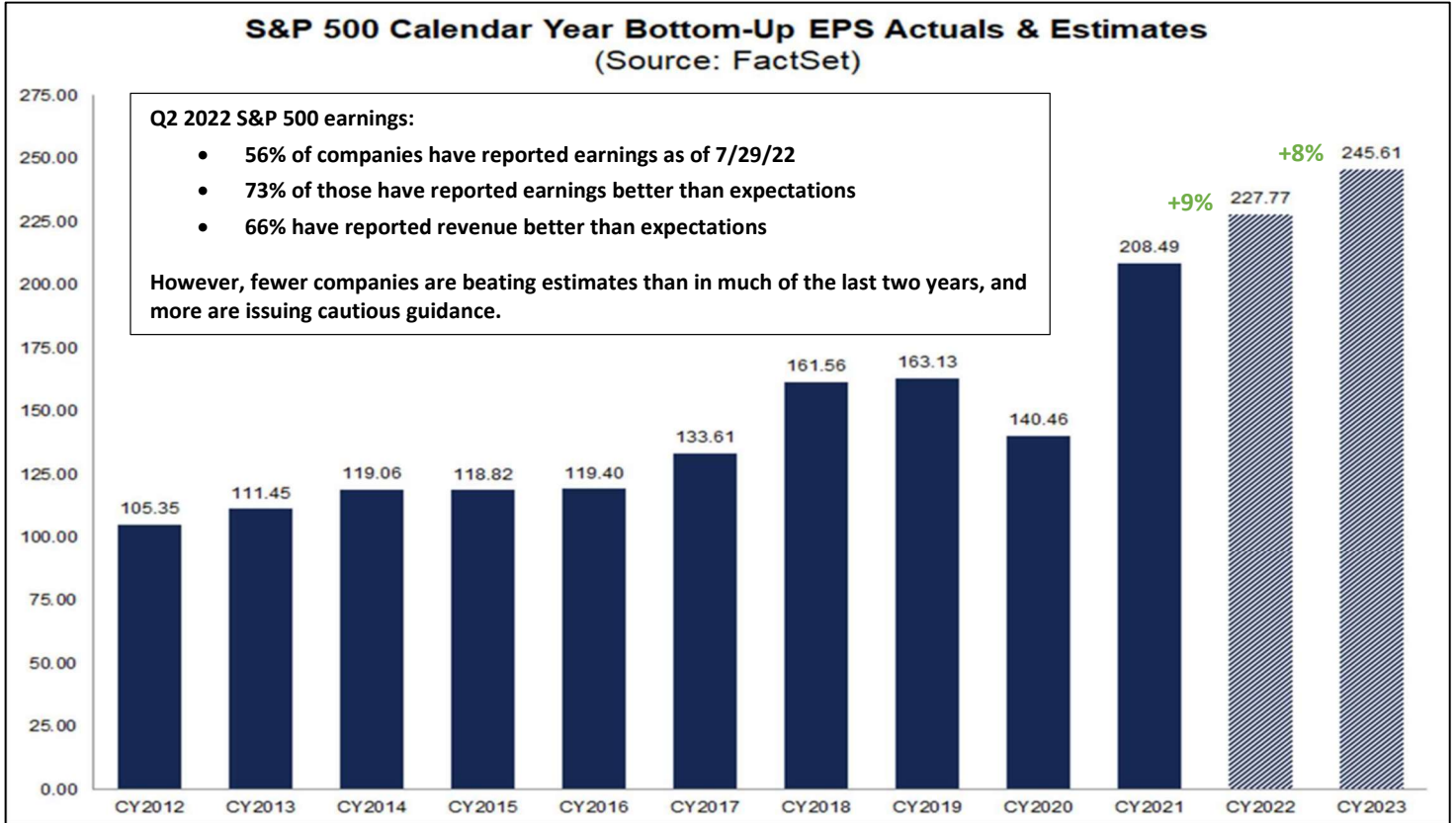
Labor Market

Total US payrolls reached an all-time high in July and represents a core pillar of strength for the economy. Job openings remain plentiful (nearly two openings for every person seeking a job), the unemployment rate is near a 50-year low, and initial claims for unemployment insurance are well below average. If there is a recession on the horizon, it's certainly not being reflected in the labor market. A tight labor market and full employment has typically been associated with the potential for higher future labor costs and a slowdown in hiring, but that has not yet materialized.



Corporate Earnings

Large US companies have largely managed through the various challenges of 2022 reasonably well. S&P 500 earnings have continued to increase, albeit at a slower pace than originally expected, which is likely contributed to share price declines this year.



Households

Another pillar of strength for the US economy is household finances, which are in relatively good shape, on average, driven by increased home equity, investment balances, cash balances, and higher wages. However, inflation and the potential for eroding living standards has pushed household sentiment to its lowest levels in decades, potentially implying a slowdown in discretionary spending activity. Household debt has begun to rise, but delinquency rates are below average, particularly mortgage delinquencies.

US Households

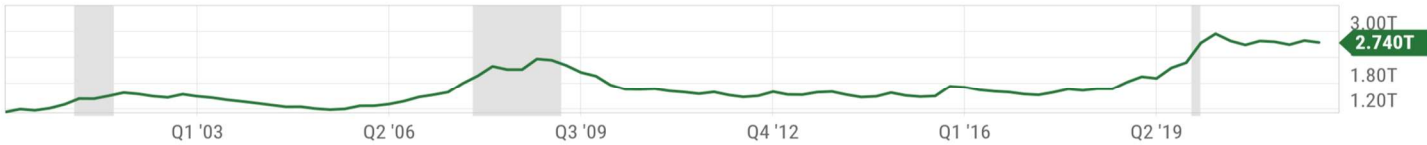
- US Total Net Worth - Balance Sheet of Households and Nonprofit Organizations



- US Household Debt Service as Percent of Disposable Income



- US Money Market Fund Shares - Assets - Balance Sheet of Households and Nonprofit Organizations



- US Index of Consumer Expectations



- US Real Retail Sales YoY



Date Range: 12/31/1999 - 07/31/2022

Household Borrowing

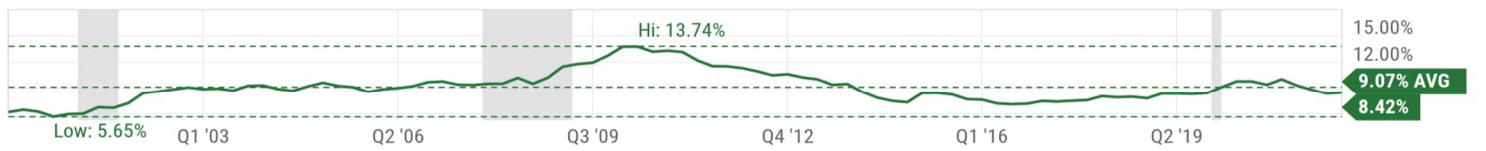
● US Total Household Debt



● US Credit Card Debt



● US Credit Card Accounts Delinquent by 90 or More Days



● US Auto Loans Delinquent by 90 or More Days



● US Mortgages Delinquent by 90 or More Days



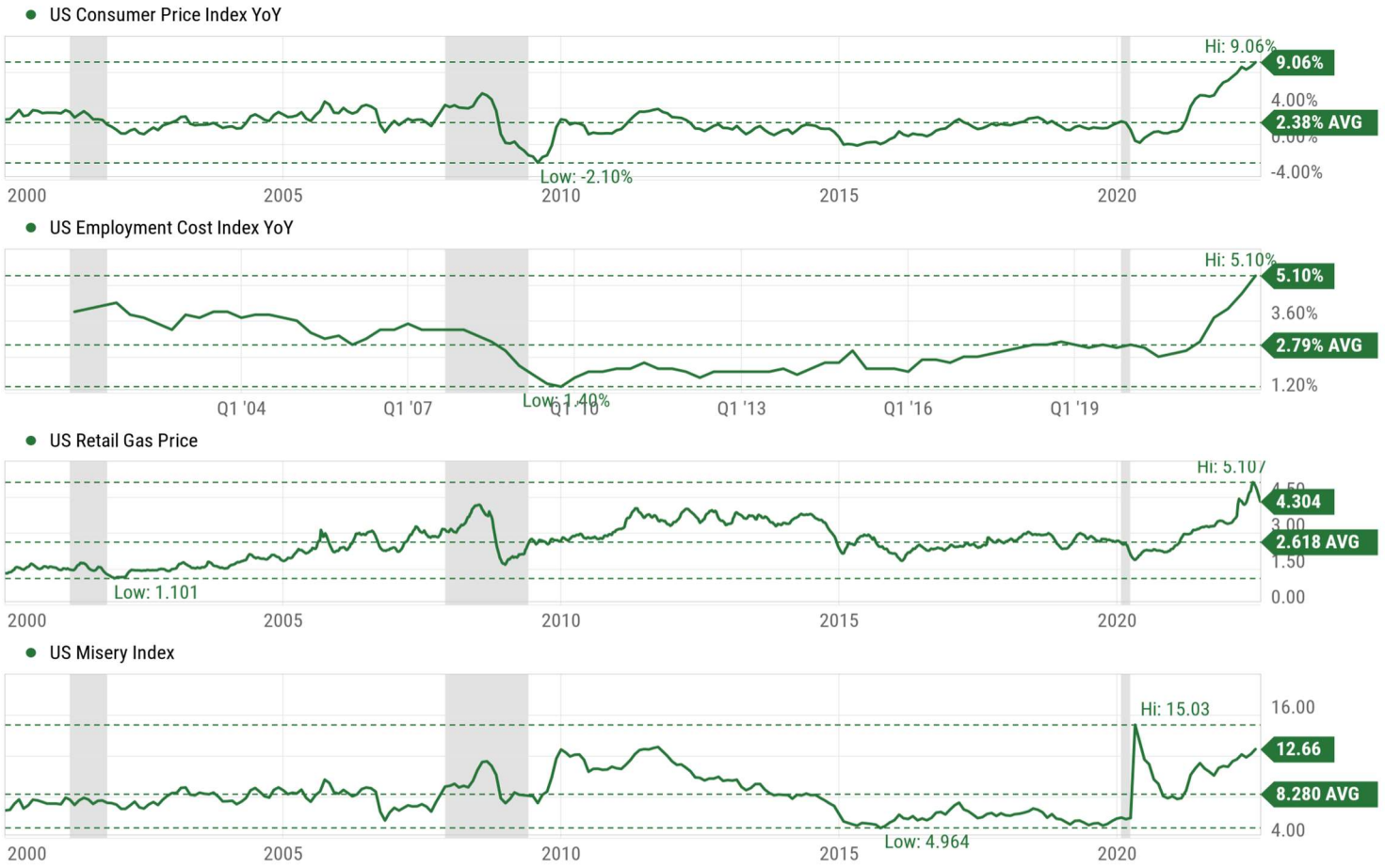
Date Range: 12/31/1999 - 03/31/2022



Inflation

Higher costs have plagued markets, households, and businesses for much of the last year. The pandemic caused supply and demand imbalances that still persist today, low interest rates drove a significant increase in home prices, and a large number of workers leaving the labor force has led to higher employment costs for businesses. Moreover, the war in Ukraine has significantly increased the costs of food and energy. Importantly, we've begun to see some slowing in the pace of rising costs as mortgage rates have increased, increased energy production has come online, and gas prices have dropped. Markets seemed to cheer this development in July.

US Inflation



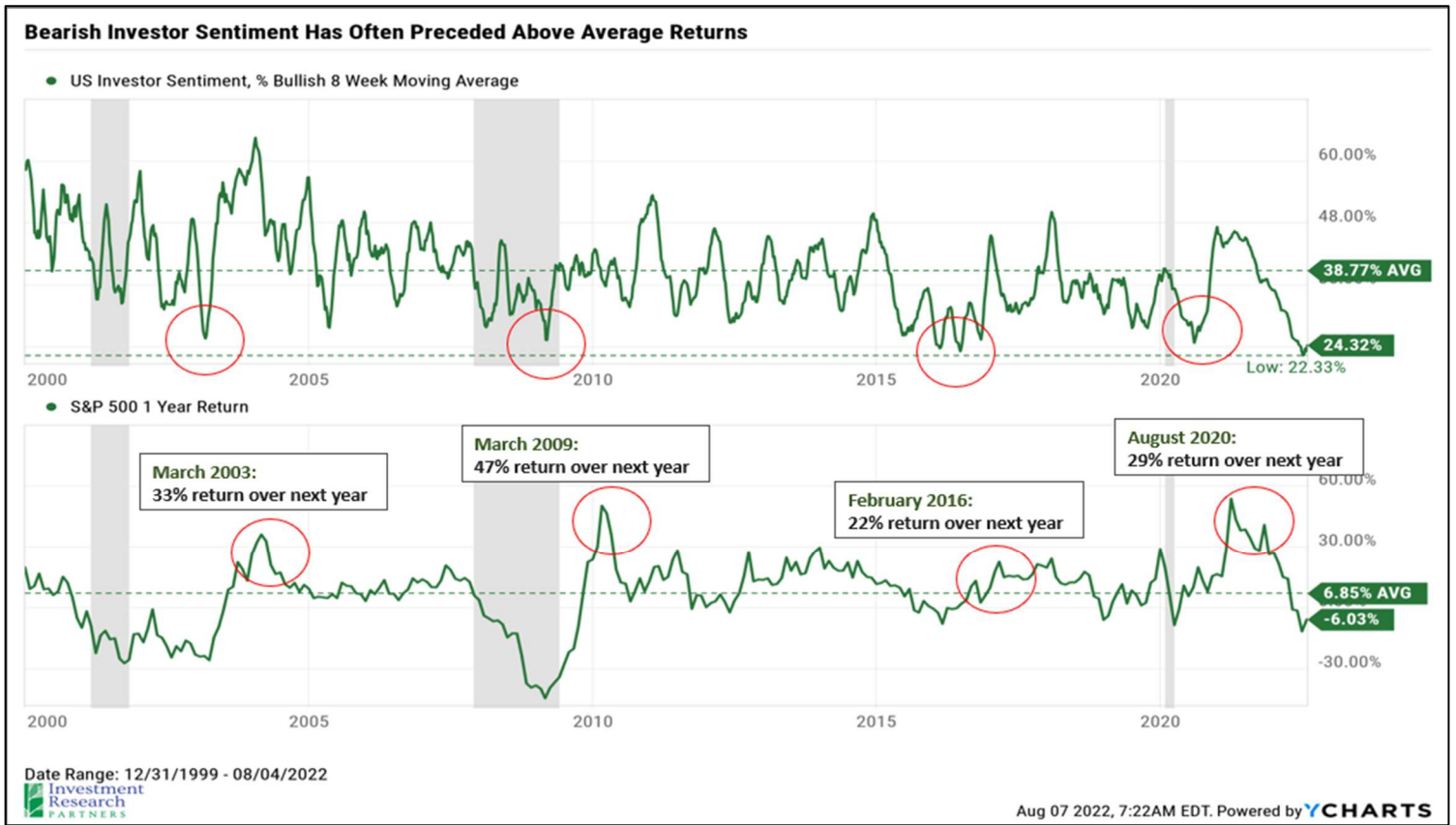
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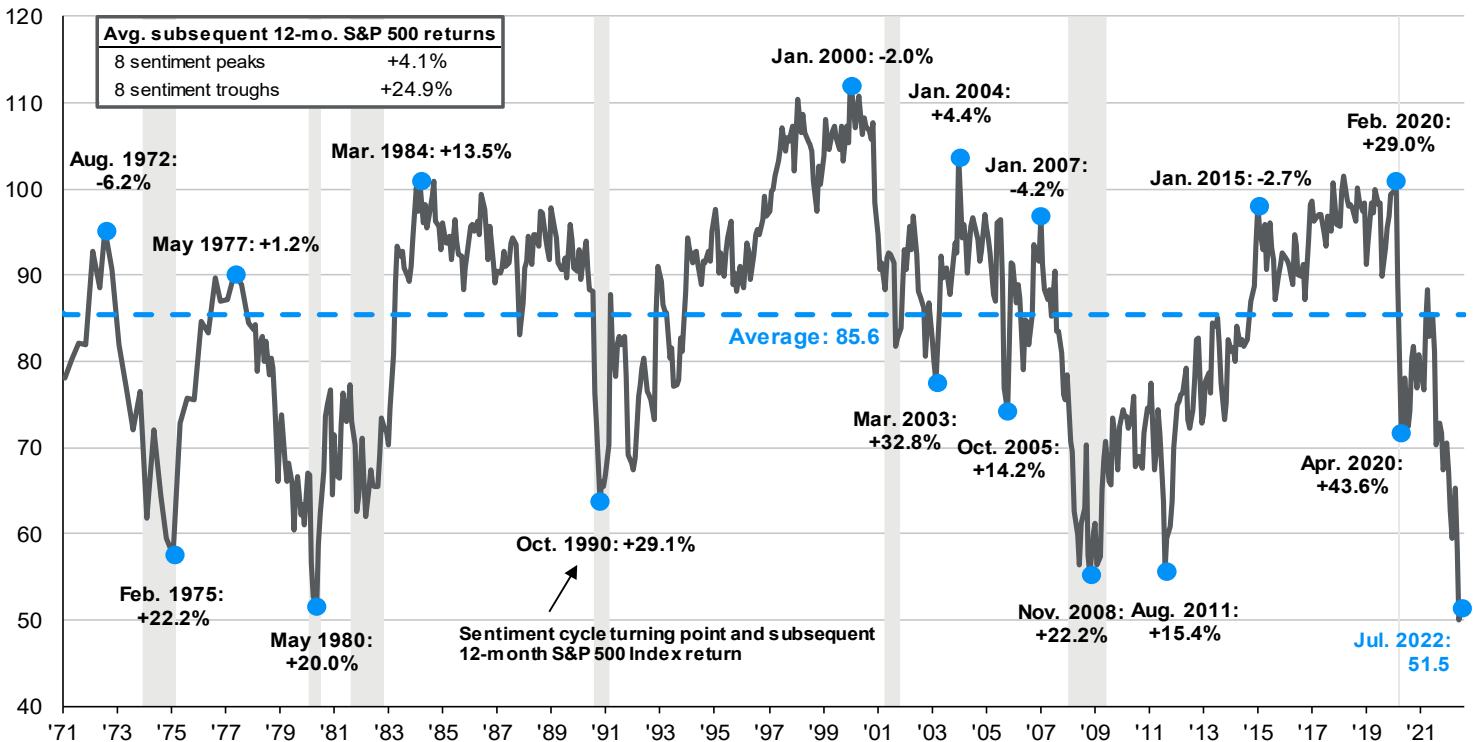
Aug 07 2022, 6:57AM EDT. Powered by YCHARTS

Sentiment

Both investor sentiment and household sentiment remain extremely low. While not a perfect timing tool, investing during environments in which there are more sellers than buyers has often led to above-average future returns.



Consumer Sentiment Index and subsequent 12-month S&P 500 returns



Prices & Interest Rates

Representative Index	June 2022	Year-End 2021
Crude Oil (US WTI)	\$98.62	\$75.21
Gold	\$1,763	\$1,828
US Dollar	105.90	95.97
2 Year Treasury	2.89%	0.73%
10 Year Treasury	2.67%	1.52%
30 Year Treasury	3.00%	1.90%

Source: Morningstar, YCharts, and US Treasury as of July 31, 2022

Asset Class Returns

Category	Representative Index	July 2022	YTD 2022
Global Equity	MSCI All-Country World	7.0%	-14.6%
Global Equity	MSCI All-Country World ESG Leaders	6.3%	-15.9%
US Large Cap Equity	S&P 500	9.2%	-12.6%
US Large Cap Equity	Dow Jones Industrial Average	6.8%	-8.6%
US All Cap Equity	Russell 3000 Growth	12.0%	-19.6%
US All Cap Equity	Russell 3000 Value	6.8%	-7.2%
US Small Cap Equity	Russell 2000	10.4%	-15.4%
Foreign Developed Equity	MSCI EAFE	5.0%	-15.6%
Emerging Market Equity	MSCI Emerging Markets	-0.3%	-17.8%
US Fixed Income	Bloomberg Barclays Municipal Bond	2.6%	-6.6%
US Fixed Income	Bloomberg Barclays US Agg Bond	2.4%	-8.2%
Global Fixed Income	Bloomberg Barclays Global Agg. Bond	2.1%	-12.1%

Source: YCharts as of July 31, 2022



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