Heacock & Jones
Financial Services, Inc.

Market Commentary - June 2022

Following are the year to date results of the major market indexes:

	YTD
Dow Jones Industrial Average	- 15.31%
Standard & Poor's 500	- 19.96%
NASDAQ Composite	- 29.51%
Wilshire 5000	- 21.91%
MSCI EAFE (International Index)	- 20.97%
Barclays Aggregate **Bond** Index	- 10.35%

"Recessions kill inflation."
The current bear market has been caused primarily by commodity inflation of 21.5% as measured by the Producer Price Index for commodities. Overall inflation is 8.5% as measured by the Consumer Price Index. In ***April 2021,*** inflation accelerated to 4.15%. The Fed. delayed until ***March 2022*** taking pre-emptive action to raise interest rates with a modest 0.25% increase. Too little and too late. Instead of prioritizing their mandate to control inflation, they chose to focus on the mandate to minimize unemployment:

6 million people currently unemployed. Versus:
158 million employed people averaging 5% wage growth thus losing 3.5% to inflation.
70 million Americans who are retired and mostly rely on a fixed income.

228 million Americans are adversely affected by the Fed's failure to manage inflation compared to 6 million who are without jobs while unemployment is 3.6%. The Feds June 15th decision to raise rates 0.75% comes too late in the inflation cycle. The U.S. is either in a recession or entering one, and that will kill inflation. The Commodity Research Bureau's Price Index peaked June 10th and has since declined 10%. The worst may be behind us. Inflation will recede due to a recession and not due to the Fed's actions.

"How bad will it get?"
Bond investors have suffered their worst decline in more than 94 years! Assuming commodity inflation improves in the next 3 to 6 months, inflation and interest rates will decline and then bond returns will enjoy a very favorable recovery. Stock investors are in the midst of a bear market. If inflation soon recedes, the bear market will be milder and less severe than the prior three bear markets; (49.1%) DOT.com; (56.4%) financial crisis; and (33.9%) pandemic. In terms of time, the last 12 bear markets averaged 12 months. We are six months into this decline. After every bear market comes a recovery. In the first 12 months following the bottom, the average return has been 42%! Unless inflation remains persistently high, this bear market is closer to the end than the beginning. Improvements in commodity prices are essential for a recovery to begin.

Paul Heacock, CFA

"Fear is a far more dominant force in human behavior than euphoria – I would never have expected that or give it a moment's thought before, but it shows up in the data in so many ways."
— Alan Greenspan

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