Markets in a Minute:
2022 Mid-Year Review & Outlook

There is no sugarcoating market performance in the first half of 2022. With the ongoing war in Ukraine, China's zero-Covid policy, domestic political disputes, upcoming elections, and of course, inflation concerns, asset classes nearly across the board declined.

For many Americans, it feels as if prices are rising on everything, except for their paychecks. At the same time, negative performance in stocks and bonds is hurting their nest eggs. It's no wonder that consumer confidence is at a multi-year low.

But there is a silver lining. Markets look forward, pricing in what investors think *will* be, not what they *are*. As such, current stock and bond prices already reflect a significant economic slowdown, if not a full-on recession. With that, stock valuations and bond yields are more attractive than they've been in quite some time.

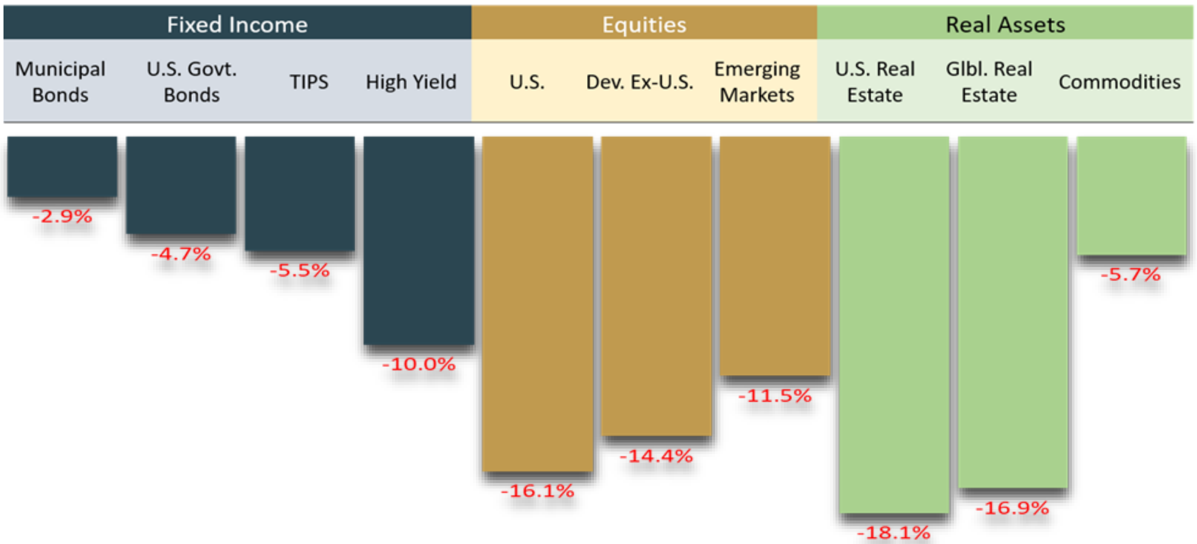
Turmoil like what we're experiencing calls for courage. Courage to remember that, though they may be painful, bear markets do end - often without warning. And, when a bear market ends, a new bull market begins and assets rise.

Here are a few highlights from the second quarter:

- The S&P 500 declined by 16% in Q2 alone and passed the threshold that marks a bear market (-20% from the previous market peak);
- After a very strong first quarter of the year, commodities declined on an absolute basis, though remained an outperformer relative to other asset classes. Similarly, energy stocks held up relatively well, declining just 5.2%;
- Consumer discretionary stocks were particularly hard hit during the quarter, with the sector dropping 26%, driven by increasing concerns around inflation and declining consumer buying power.

(see chart on next page)

Q2 2022 Index Returns



Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Note: views are from a U.S. dollar perspective. Source: Kestra Investment Management with data from FactSet. Index proxies: Bloomberg Municipal Bond Index, Bloomberg US AGG Bond Index, S&P US TIPS, ICE BofA US High Yield, S&P 500, MSCI World ex USA, MSCI EM, Dow Jones US Select REIT, Dow Jones Global X US & Bloomberg Commodity Index. Data as of July 15, 2022.

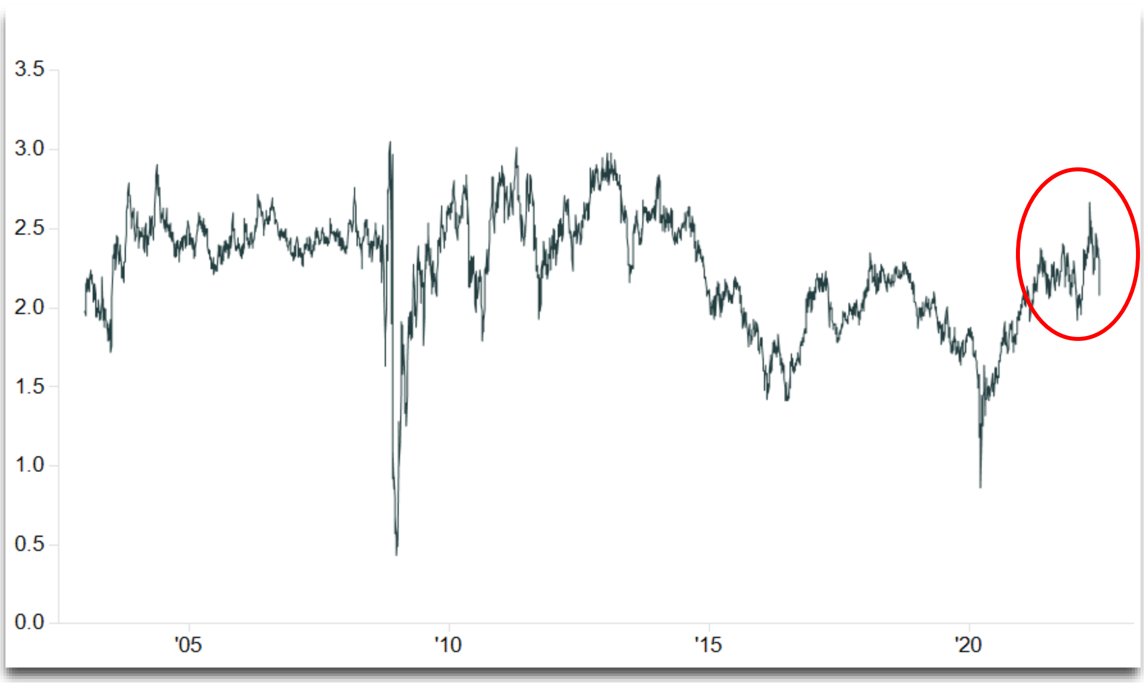
As inflationary pressures continued to grow, the Federal Reserve hiked interest rates much more aggressively, effectively slamming on the economic brakes.

- Economic indicators are flashing warning signals about the pace of growth. For instance, one leading measure of manufacturing activity declined precipitously in the last reading.
- Despite strong balance sheets and labor markets, consumer confidence has been among the lowest we have seen since the global financial crisis.
- The inflationary pressure faced by the U.S. economy is not unique. Both developed and emerging economies are facing the same challenges of rapidly increasing inflation, slowing growth, and central banks tapping the brakes.

With consumer prices soaring by the fastest pace in decades, will inflation ever come down? There are some signs that price increases may cool later this year.

- Supply chain disruptions that had wreaked havoc earlier during the pandemic are easing. Rates for shipping containers had soared and are now falling.
- Retailers are seeing inventories build, which may even lead to some price cuts.
- Commodity prices, after enormous gains earlier this year, are now falling. Wheat prices are back to where they were prior to the war in Ukraine. Lumber, copper and gas have all dropped from recent highs.
- Importantly, market participants believe that over the long term, inflation will come back to the Federal Reserve's target of 2%, betting that the Fed will win the war with inflation.

5 Year Forward Inflation Expectation Rate



Forward looking estimates may not come to pass. Past performance is no guarantee of future results. Source: Kestra Investment Management, Federal Reserve Bank of St. Louis & FactSet. Data as of June 30, 2022.

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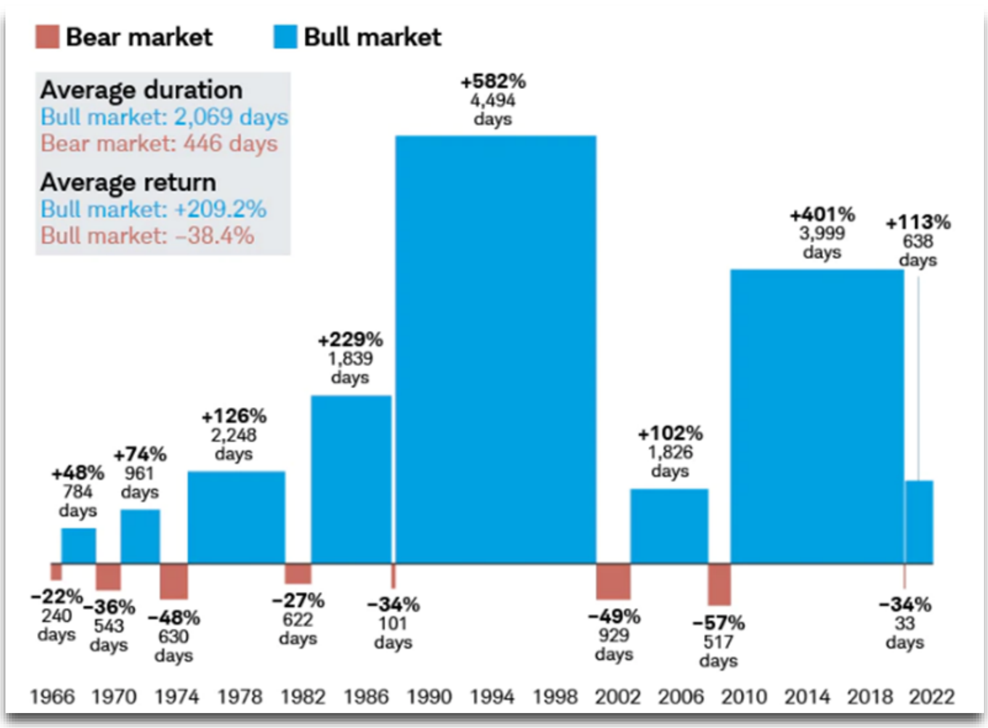
Conclusion: There is a Silver Lining

So far this year, the S&P 500 has been in a bear market for about 180 days and has declined by over 20%. A sharp recession could certainly bring new lows but already low stock prices and solid earnings have brought equity valuations below their 25-year average. Bond yields are at more attractive levels than we've seen in several years.

Bear markets may be painful to endure, but they don't live forever. Bull markets on average have lasted almost five times longer than bear markets and they've provided much more upside than bear markets have moved down. Most importantly, it's impossible to know at the time when a bear market has ended. Not being invested during that turn could mean losing out on tremendous upside. If you can maintain the courage to wade through these periods, history suggests you can get excellent returns.

Bear Markets Don't Live Forever



Forward looking estimates may not come to pass. Past performance is no guarantee of future results. Source: Kestra Investment Management, Charles Schwab & FactSet. Data as of April 04, 2022.

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