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Traditionally, the summer months are reserved as a time of respite and a scheduled hiatus from the hustle and bustle of life. As the days of summer progress, we hope you find many opportunities to rest, relax, and recharge for the second half of 2022.

After a disappointing first quarter of 2022, investors were hopeful the second quarter would signal signs of economic improvement. Unfortunately, the midyear report card communicated a narrative of slowing conditions, higher inflation, interest rate hikes, a prolonged war in Ukraine, and a deterioration in the financial markets. The resulting equity market selloff that originated earlier this year intensified to push the major indices toward bear market territory (a decline of 20% or more from a recent high). Even the bond market felt the strain of uncertainty as negative returns dominated short-term, intermediate-term, and long-term U.S. Government bonds. See the table below for the six-month return in bond and stock indices.

Bond and Stock Index Total Return January 2022 - June 2022

Sector	Index	Return
Short-Term U.S. Bond	Bloomberg 1-3 Year Treasury	-3.01%
Intermediate-Term U.S. Bond	Bloomberg Intermediate Treasury	-5.80%
Long-Term U.S. Bond	Bloomberg Long-Term Treasury	-21.25%
Inflation Protected Bond	Bloomberg Treasury TIPS	-8.92%
Domestic Large Company	Dow Jones Industrial	-14.41%
Domestic Large Company	S&P 500	-19.96%
Domestic Small Company	Russell 2000	-23.43%
Domestic Large/ Information Tech.	NASDAQ	-29.23%
Developed International	MSCI EAFE	-19.57%
Emerging Markets	MSCI EM	-17.63%
Real Estate/REITs	DJ U.S. Select Real Estate	-21.14%

Source: Morningstar

The table illustrates the depth of the decline and the wide range of market sectors affected. On the opposite spectrum, positive returns were scarce during the period and limited to cash, energy, and commodities.

The significance of the decline can be further demonstrated by a review of market returns during the first six-month period of all calendar years since 1926. Based on historical data, the 2022 six-month decline was the third worst for domestic large company stocks (-20.0%) and the worst ever for domestic bonds (-10.4%).[1] Another interesting observation from similar research showed that it is very rare for both U.S. stock and bond markets to be negative during the same calendar year. Of the 25 negative calendar year returns for stocks since 1926, the bond market ended the same calendar year with a negative return only twice (1931 and 1969).[2] 2022 will mark the third occasion in 26 years if current market returns remain unchanged. Fortunately, the outcome for the 2022 financial markets is not likely to be determined by a first-half score. Investors still have plenty of time left on the game clock for a market comeback, but it will take a solid rally over the next six months to get a "W" (back into positive territory) for the year. The famous professional baseball player Yogi Berra said it best, "It ain't over till it's over".

Data on the domestic economy showed conditions were a mixture of good and bad as the recent quarter ended, but persistent and elevated inflation was the main reason investors were left with a general sense of dissatisfaction. The widely publicized inflation reading in June marked a 40 year high in the Consumer Price Index (all items) over the last 12 months at 9.1%. Sharp increases in gasoline (59.9%), energy (41.6%), airfares (34.1%), new vehicles (11.4%), and food at home (12.2%) were noted in the latest news release from the Bureau of Labor Statistics. The ripple effects of inflation and supply chain disruptions have resulted in Federal Reserve interest rate hikes (1.5% increase so far), a decline in consumer confidence, slower housing activity, and diminished economic growth (1.6% first quarter 2022 GDP - Gross Domestic Product). This quarter's positive economic indicator list was not lengthy, but the items on the list are extremely important to economic growth and stability. To start, economic data suggested healthy consumer balance sheets and elevated consumer spending. Consumption is the largest component of GDP, and economic support begins with consumer's willingness to spend. Job growth is another key indicator of economic expansion, and the current reading revealed continued improvement toward pre-pandemic levels. Additional positive inputs on the list included enhanced wage growth, manufacturing activity progress, higher business investment, and positive corporate profits.

The Federal Reserve's June meeting confirmed mixed economic conditions. The press release revealed some pick-up in activity, robust job gains, low unemployment paired with elevated inflation, continued supply/demand imbalances, higher energy prices, and broad price pressures. The Fed also noted that global activity continued to be negatively affected by Russia's invasion of Ukraine and COVID related lockdowns in China. After evaluating incoming data, the Federal Open Market Committee (FOMC) intensified the battle against inflation this year with some aggressive rate hikes in the hope of bringing demand back in line with supply. A March 2022 increase of 25 basis points (bps) began the current trajectory. It was followed by increases of 50 bps in May and 75 bps in June (largest increase since 1994). The current range for the federal funds target rate stands at 1.50% to 1.75%. Based on June's inflation report, the FOMC expects to continue rate increases this year at the July and September meetings before adjusting policy actions, and the Fed's updated dot plot (expected rate increase schedule) revealed the future federal funds rate will be close to 3.5% by year end. The Committee affirmed their commitment to monitor a wide range of incoming data (public health, labor markets, inflation pressures and expectations, and financial and international developments) and to make policy adjustments if risks emerge that could impede the attainment of maximum employment and inflation at 2% over the long-term.

Our outlook for the remainder of the year mirrors the economy's mixture of good and bad. We agree there is growing weakness in the current economic situation, and we understand the pessimism investors have due to higher inflation, a slowing economy, financial bear market conditions, and recession fears. However, we still believe there is supportive evidence of

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[1] Source: BlackRock, "*Worst start to a year for bonds and 3rd worst start for stocks*", July 2022 Student of the Market Presentation. (Stocks represented by the S&P 500 Index, Bonds represented by U.S. Government Intermediate Index and U.S. Aggregate Index)

[2] Source: BlackRock, "*Historically rare for U.S. stocks and bonds to be both negative at the same time*", June 2022 Student of the Market Presentation. (Stocks represented by the S&P 500 Index, Bonds represented by U.S. Government Intermediate Index and U.S. Aggregate Index)

economic strength (fundamental drivers of growth) and existing momentum despite all the recent economic challenges. We are optimistic and hopeful the current period of weakness will be a reset rather than a development that leads to a severe recession. We are certain the Fed will continue their strategy to tame inflation for the remainder of this year and into 2023. Unfortunately, there is a time lag between policy actions and economic data that reflects any impact of the rate hikes, so our advice is exercise a little patience. We anticipate evidence of downward inflation and price adjustments to appear during the next two quarters.

Worries about the financial market decline into bear market territory (decline of 20% from the previous market high) was a major topic for investors. The 2022 drawdown in the S&P 500 index from the most recent high on January 3 to the low on June 16 hit -23.6%. The fall was severe, but history has shown bear markets tend to have deeper declines (-35.1%) on average and usually have an average duration of sixteen months. See the S&P 500 Index bear market history chart below.

S&P 500 Index - Bear Market History

Start	End	Duration (Months)	Percent Change
May 1946	June 1949	37	-29.1%
August 1956	October 1957	15	-21.6%
December 1961	June 1962	6	-28.0%
February 1966	October 1966	8	-22.2%
November 1968	May 1970	18	-36.1%
January 1973	October 1974	21	-48.2%
November 1980	August 1982	20	-27.1%
August 1987	December 1987	3	-33.5%
March 2000	October 2002	31	-49.1%
October 2007	March 2009	17	-56.8%
February 2020	March 2020	1	-33.9%
January 2022	?	6	-23.6%
	Average	**16**	**-35.1%**

Data as of 6/30/2022. Source: FactSet, S&P Dow Jones Indices. **Past performance is not an indicator or guarantee of future results.**

Parents on a summer road trip hear this question from their kids over and over…are we there yet? Well, investors are asking a similar question about this bear market now that it is here…when will it be over?

Based on historical averages, investors may have some additional pain to endure, but it is impossible to predict the outcome because no two bear markets are alike. The COVID bear market of 2020 and the Black Monday bear market of 1987 provide great examples of strong but short-lived bear markets.

Further guidance on the duration of this bear market can be found in several areas. The first element involves the price to earnings ratio (P/E) adjustment. This stock valuation metric provides a comparison of a company's share price to its expected per-share-earning. In aggregate, looking at the market's overall P/E can provide a quick snapshot of how expensive stocks are as a group. A bear market will usually bring about an adjustment to this ratio back toward historical averages. The S&P 500 Index forward (future expectations) P/E ratio has been growing and at a high level for several years. As of June 30, 2022, the ratio had fallen to 15.94x earnings from highs above

22x earnings with 25-year historical averages at 16.85x earnings. Simply stated, stock valuations are now below averages. This is a good sign for a future market recovery.

Another component to consider is the upcoming earnings forecast for company profits. As reports are issued this quarter, a signal of weakness or health from companies will help determine the probability of a prolonged or shorter bear market timeline.

Our last item that provides some optimism for the current bear market involves consumer sentiment. As market cycles progress, consumer sentiment tends to flow in a similar direction, and the timing of peaks and troughs in consumer sentiment can provide potential insight into future results. Since 1972, there have been eight sentiment peaks and eight sentiment troughs. After reaching a peak or a trough, the S&P 500 Index has averaged a return during the next 12 months as illustrated in the table below.

Average Subsequent 12-mo. S&P 500 Index Return	
8 Consumer Sentiment Peaks	**+4.1%**
8 Consumer Sentiment Troughs	**+24.9%**
Data as of 6/30/2022. Source: J.P. Morgan Guide to the Markets	

The economic negatives we previously discussed resulted in a significant decline in consumer expectations for the economy and at the recent quarter end was reported at 50.0 points. The current reading is the lowest of any of the 8 previous consumer sentiment troughs, and investors would need to look back to May of 1980 to find a reading as low. Does the low consumer sentiment level mean a trough has occurred and the next 12-month period will result in positive returns over 20% in the S&P 500 Index? Unfortunately, we don't have a crystal ball to predict the outcome, but historical insights about the movement in consumer sentiment tells us the future market environment might be more favorable.

The risks to prosperity are plentiful for the domestic and global economies. As we proceed into the second half of 2022 with a watchful eye, we are tracking the following: persistently high inflation, the Fed's hawkish stance on monetary policy, the conflict in Ukraine, fiscal policy uncertainties, prolonged supply chain disruptions, labor market imbalances, energy and commodity price shocks, new COVID variants, natural disasters, cyberattacks, terrorism, and escalating geopolitical tensions.

When markets are challenging, I'm reminded that a key principle for the prudent investor is to stay invested. Investors don't purchase risk assets with the goal of losing money, and the fear of losing everything can drive any investor out of the market during times of turmoil. While the appeal of market timing is obvious (improving portfolio returns by avoiding periods of poor performance), timing the market consistently is extremely difficult, and investors that wait for the right time to invest often find themselves missing out on the best performing days the market has to offer.

The example on the following page illustrates the impact of missing the best performing days for an initial $1,000 investment in the S&P 500 Index over the last 25 years. Investors who stayed the course were rewarded as their $1,000 investment grew to $3,452. Investors who missed the best 40 performing days experienced a loss as their $1,000 investment declined to end the period at $399.

Cost of Market Timing S&P 500 Index 1997-2022	
Fully Invested	$3,452
Missed Days	
Best One	$3,094
Best 5	$2,182
Best 10	$1,583
Best 20	$936
Best 30	$599
Best 40	$399

Staying invested through ups and downs is the key to long-term success.

Missing out on the best performing days can have a devastating outcome.

Data as of 7/1/2022. Source: Clearnomics and Standard & Poor's. Based on an initial $1,000 investment excluding all transaction costs. **Past performance may not be indicative of future results. Indexes are not available for direct investment.**

Predictions and expectations about bear markets and recessions should not result in an emotional overreaction for investors. Market downturns and economic slowdowns are part of the natural market cycle and can't be avoided, but knowing they are temporary is key to surviving them. History reminds us that no matter how painful a selloff may be, the stock market averages have always gone on to make new highs. In other words, even though it may not seem like it right now, this too shall pass.

As I have often stated, our investment philosophy remains based on the fundamentals. ***We believe it is time---not timing---that matters most.*** Prudent investors focus on what they can control. They create an investment plan to fit their needs and risk tolerances; they diversify globally; they stay patient and disciplined through market dips and swings; and they don't panic when faced with challenging market conditions.

Given the current investment landscape, scheduling a financial check-up during the second half of this year could be a good idea to help evaluate your financial health and highlight adjustments. If you would like to discuss modifications to your financial situation, schedule a meeting, or have any questions, please contact our office.

In closing, I want to thank you for the opportunity of working with you and for your continued confidence and trust.

Have a safe and enjoyable summer!

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

Bill

William B. Howard, Jr., ChFC®, CFP®

WBH/bdb

Enclosures: Index Performance and U.S. Economic Data
WHC Performance Statement

2022 Total Return Index Performance			
Asset Class	**Index**	**2nd Qtr.**	**YTD**
Cash	BofA/ML Three-Month U.S. Treasury	0.10%	0.14%
U.S. Bonds	Barclays Intermediate-Term Treasury	-1.67%	-5.80%
U.S. Large Co. Stocks	S&P 500	-16.10%	-19.96%
U.S. Small Co. Stocks	Russell 2000	-17.20%	-23.43%
International Stocks	MSCI EAFE (net div.)	-14.51%	-19.57%
Real Estate	DJ Select Real Estate Securities Total Return	-18.10%	-21.14%
Source: Morningstar			

U.S. Economic Data	
GDP	1.6% decrease (annual rate) – 1st Quarter 2022
Inflation	5.9% CPI (less food and energy) and 9.1% CPI (all items) over last 12-months ending June (Energy index up 41.6%; Food index up 10.4%).
Interest rates	Federal Funds Rate range = 1.50 – 1.75%. March 25 bps increase, May 50 bps increase, June 75 bps increase. Expect July and Sept. increase.
Jobs	June 2022 data - Unemployment at 3.6%; non-farm payroll employment rose by 372,000 jobs; Labor force participation rate 62.2%; Demand for workers remained elevated but worker shortages continued to force firms to operate below capacity. Strong wage growth was reported.
Manufacturing	Manufacturing activity grew for the 25th consecutive month; June ISM Manufacturing Index registered at 53%; demand registered slower month-over-month growth and the sector continued to feel the effects of a supply chain-constrained environment.
Business Spending	Private non-residential investment continued to improve (above pre-COVID levels); New durable goods orders increased 0.8% in May (up 7 of last 8 months).
Corporate Profits	1st Quarter 2022 - U.S. corporate profits decreased 2.2%. S&P 500 Earnings per share = $49.36 (one-year increase of 4%).
Housing	May 2022 year-over year data - New home sales down 5.9%; Existing home sales fell 8.6%; Median sales price of existing homes (up 14.8%) surpassed $400,000 for the first time ever ($407,600); Housing starts declined 3.5%; Building permits rose 0.2%; Housing inventory declined 4.1%% from last year; Unsold inventory = 2.5-month supply; MBA fixed 30-yr mortgage rates = 5.84% ending 6/29/2022.
Consumer Spending	Disposable income weakened; Consumer Confidence Index fell to its lowest level since early 2021; Retail and food services sales increased; Total vehicle sales fluctuated to remain close to 2021 lows; Personal durable and nondurable spending remained elevated; Personal savings rate remained at a low level.
Energy	Oil price (West Texas Intermediate) = $107.76/bbl – 06/30/2022 (2022 increase of 43.05%); Gas price (U.S. average regular unleaded) = $4.8721/gal – 03/28/2022 (2022 increase of 48.76%)