

Strategy Commentaries for July 2022

Week commencing 24 July – A summer rally! A rest bite from the recent decimation in stock markets! Whatever one makes of July's spirited recovery could finally be put to rest in the forthcoming week as the FED looks like entering further hawkish territory with a 0.75% base point rise in interest rates. The excuse of course is the rapid inflation now evident in major economies.

It will be a very busy week in the US, with the FOMC decision, earnings and economic data taking centre stage. The Fed is set to continue its rate hike path with expectations pointing to a second straight 75bps increase, pushing borrowing costs to the highest level since 2019. Also, more than a third of S&P 500 companies will be reporting quarterly results, including Apple, Microsoft, Google parent Alphabet, Amazon, Meta Platforms, 3M, Boeing, Ford and Intel. Inflation has now become the number one target for policy address. The Fed believing that interest rate manipulation is the way forward for the curtailment of inflation as it believes that the US economy will be able to cope with the Fed's actions. Market sentiment is always a good barometer on expectations and therefore stock market performance. In the UK on the data front, British services and manufacturers remained in expansionary territory in July, according to better-than-expected PMI figures. However, consumer confidence in the UK remained at a record low in July, and retail sales declined for a second straight month as consumers struggled with rising prices and higher interest rates. A summer recess has meant an absence of market commentary yet trading never stops. Recent trades have been made in the selling of Alcoa the aluminium producer (about time) as Alcoa's losses were endured. The disappointment of Alcoa resulted in a reset to share sector involvement and recent trades being made in Dynex capital, Dynex manages mortgage real estate investment trust (REIT), which primarily invests in residential and commercial mortgage-backed securities (MBS) and seeks to provide returns to its shareholders primarily through the payment of regular dividends and through capital appreciation of its investments. Bank of New York Mellon provides financial services for institutions, corporations or individual investors, and Antero Midstream Corporation is a growth-oriented midstream company that owns, operates and develops midstream energy infrastructure that primarily service Antero Resources' production and completion activity. The financial services sector will, in my humble opinion become a highlighted area with escalation interest rates. All these stock selection have been acquired for dividend income thereby shifting from growth to income. Shifting emphasis to good dividend paying stocks has been a calculated decision given the disappointment of growth stocks in 2022. Sometimes a strategy needs changing and good dividend income shares has been favoured over the recent resource stock Alcoa which has proved to be a disappointment. Potential flashpoint for this week is how much the rise in interest rates by the FED. Any takes for a 50 bps rise instead. Well you never know. July has stabilized previous month's decimation and one is optimistic that July can end on a positive note so reviewing market sentiment will be crucial this week to ensure portfolio can at least be kept in tact. Until next time.

Week commencing 4 July – Connoisseurs of science fiction are always tuned to the 'Back to the Future' trilogy where history has an unfortunate knack of repeating oneself. The Dow and S&P 500 posted their worst quarter since the first quarter of 2020 when Covid lockdowns sent stocks tumbling. The tech-heavy Nasdaq Composite is down 23% for the second quarter, its worst quarterly performance since 2008. The S&P 500 posted its worst first half of the year since 1970, hurt by

worries about surging inflation and Federal Reserve rate hikes, as well as Russia's ongoing war on Ukraine and Covid-19 lockdowns in China. The tech-heavy Nasdaq has been hit especially hard this year. The index is now more than 31% below its Nov. 22 all-time high. Some of the largest technology companies have registered sizeable declines this year. The 1970s were a period of rampant inflation with interest rates as high as 15%. 2022 will never see rates at those previous levels but impending interest rate hikes will still further damage the illusion that prosperity is just around the corner, Prime Minister Macmillan once quoted 'You've never had it so good.' I would humbly suggest that its now payback time for the never ending support that Financial markets were given through Quantitative Easing, the pandemic and the easy funny money printing machine that has been behind the rapid rise in inflation. And you haven't seen nothing yet with for example in Turkey where inflation weights in at 76%. What economists and sooth sayers forget to mention is that there's always a lagging delay for effects to kick in, in curbing inflation. The inflationary spiral that has become evident will affect future corporate earnings and so depress share prices. The Crypto world continues to become a festival of unpredictability with crypto currencies seeing significant market devaluation as Bitcoin value being reduced from the dizzy heights of \$60k to \$18k. As were officially in bear market territory one needs to even more aware of false signals that the market may send. Sentiment surveys [Click here](#) and the use of the bull/bear ratio provides a way of determining market consensus, one of which allows one to navigate market direction in these uncertain times. July normally being a positive months for stocks could continue where June left off, so grabbing quick profits on sector specific trades may be the answer to prevent gained profits from disappearing from view. Technology stocks have seen a reversal of fortunes. I have purposely refrained from market participation as direction of markets still maintain their downward direction. Alas the market has done it damage but one must fight for another day. Until the market glimmers with a light of positivity, I will continual to ear on the side of caution. Until Next Time.