MARKET
AND ECONOMIC
UPDATE

Amplify ETFs

3 Insights for the Second Half of 2022

JULY 2022

As we enter the second half of the year, investors continue to grapple with inflation, higher interest rates, the Fed, and the prospect of a recession. If historical bear markets are any indication, the decisions investors make during this period will have long-lasting effects on their portfolios.

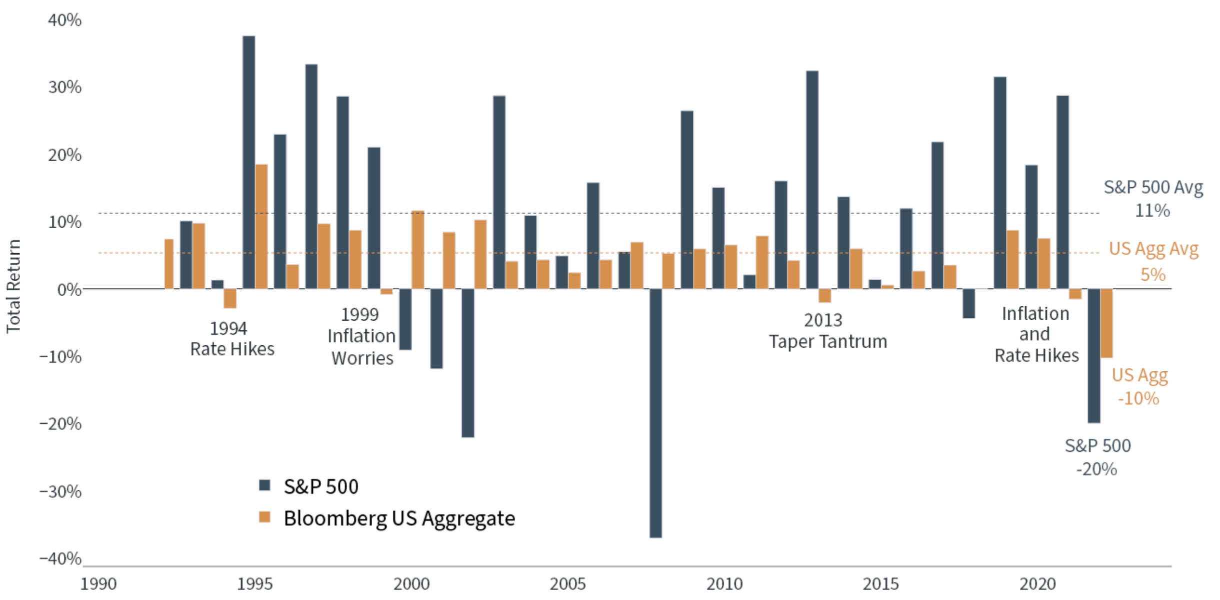
Resisting the temptation to overreact to daily market swings, dwelling on the past, and losing sight of bigger factors has never been more important. While it's difficult to imagine a market recovery today, more than a century of market history suggests that they can occur when investors least expect. Investors should consider what will matter to markets over the next several months as they position for the years and decades ahead.

The stock market officially fell into bear market territory in June with the S&P 500 losing as much as 23% on the year before recovering somewhat. Last month alone, the S&P 500, Dow and Nasdaq fell 8.4%, 6.7% and 8.7%, respectively. The second quarter experienced the fourth-worst market performance since 1990, adding to a difficult first quarter. Interest rates climbed due to inflation and Fed rate hikes with the 10-year Treasury yield rising as high as 3.47%. The VIX index of stock market volatility hit 34 during the month before settling at 28.7. Bitcoin ended the month down 41% to $18,731, continuing what many have dubbed "crypto winter."

There are no two ways about it - bear markets are always difficult as anyone who invested through 2000, 2008 or 2020 can attest. However, experienced investors know that bear markets occur periodically and are an important part of each cycle. For those in a position to do so, these periods present opportunities to invest when valuations are attractive and position for future recoveries and growth. While the future is always uncertain, there is no doubt that all investors wish they had taken advantage of attractive prices during past bear markets. After all, the reason that investors are rewarded in the long run for owning stocks is the ability to stomach short-term uncertainty.

Below, we discuss several insights from the first half that will carry through to the remainder of the year. These include the relationship between stocks and bonds, inflation, and more. Those investors who can heed these lessons and stay disciplined will likely be better positioned to achieve their long-term financial goals.

Stocks and bonds have both struggled this year



The S&P 500 index is a stock market index provided by Standard & Poor's that seeks to track the 500 largest public companies listed in the U.S. The Bloomberg U.S. Aggregate Bond Index is a broad-based bond benchmark that measures the investment grade, U.S. dollar-denominated, fixed rate taxable bond market. It is not possible to invest directly in an index.

Latest data point is Jun 30, 2022

Sources: Clearnomics, Standard & Poor's, Bloomberg

What has made this year challenging is that both stocks and bonds have performed poorly. This is because the sudden jump in rates due to inflation has hurt all asset classes at the same time. This bucks the normal pattern of bonds supporting portfolios in difficult markets.

At the same time, investors who stayed invested have still done well over the past few years. Since 2019, the S&P 500 has gained 51% despite this year's poor performance. Investors who have stayed focused over the past decade have also done extremely well, despite numerous periods of volatility. This is why the most important principle of investing is still to stay patient and not try to time the market.

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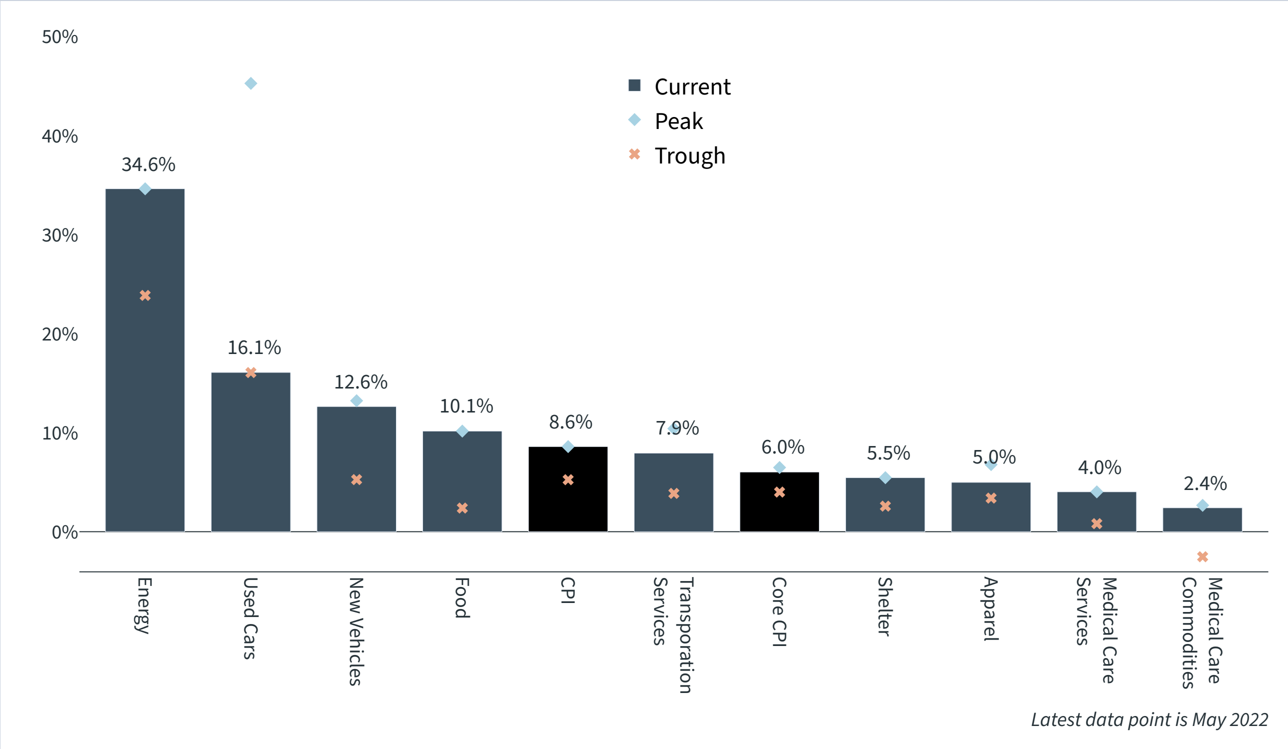
Inflation has increased across many categories

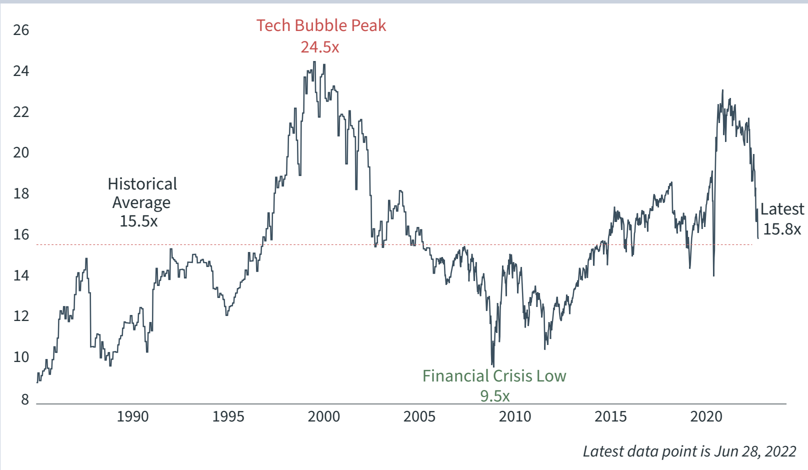


Sources: Clearnomics, U.S. Bureau of Labor Statistics

Inflation can be a tricky subject since it can be driven by many factors. Rising energy prices due to strong demand and the war in Ukraine have only made matters worse, especially for consumers at the gasoline pump. The fact that all prices have increased adds insult to injury and hurts consumer pocketbooks, reducing discretionary spending on other items. Recent data show that retail sales and spending have in fact declined.

In particular, gasoline prices near $5 per gallon has driven consumer confidence lower and raises expectations of higher inflation ahead. The primary determinant of gasoline prices is oil. This is why greater supply as geopolitics improve, and lower demand as the economy slows, could help to bring prices down in the second half of the year. If this happens, then inflation may begin to calm and markets may find a reason to be optimistic in the months ahead.

Valuations present long-term opportunities for patient investors



Sources: Clearnomics, Refinitiv

Stock market valuations are at their most attractive level in years. Rather than being close to all-time peaks last seen during the dot-com bubble, the forward price-to-earnings ratio, a valuation measure that compares the price of the index to earnings estimates, on the S&P 500 is now back to historical averages.

For patient investors, this presents an opportunity to benefit from this downturn in the years ahead.

The bottom line?

While bear markets are challenging, investors ought to view the current period with perspective. If inflation begins to ease, optimism may return to the market and economy. Taking advantage of the current market by staying invested and diversified are still the best ways to achieve financial goals in the years and decades to come.

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