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At Passage Wealth, it is important to us that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

On June 13th, the S&P 500 officially entered bear market territory, defined as a pullback of at least 20%[1]. While global capital markets have been volatile all year, crossing these man-made thresholds has the potential to create additional anxiety and nervousness, generating a lot of headlines and inevitably talks of the rising risks of a recession to go along with the discussions around stubborn inflation and the path forward for the Federal Reserve that we have become accustomed to lately. Though it is notable that aside from the pandemic-related pullback in March 2020, the last time the S&P 500 entered bear market territory was over a decade ago in August 2011.

While the consumer was one of the strongest parts of the economy in the first quarter, with personal consumption rising 3.1%[2], there may be some initial signs of that cooling. Retail sales fell 0.3% in May[3], which was the first monthly decline of the year as consumers pulled back spending on most non-essential goods, with furniture, electronics, and online shopping hit the hardest as consumers' resilience in the face of higher prices appears to wane.

Further, April's rebound in consumer confidence appears to have been short-lived, with the University of Michigan's Consumer Sentiment Index slumping to a record low in May's preliminary release[4]. The impact of, and fears of continued inflation, continue to batter sentiment, with 46% of respondents attributing their negative views to inflation. The inflationary picture also worsened in May, with the Consumer Price Index rising 8.6% over the prior year, up from the 8.3% annual increase in April[3]. In brighter news, core inflation, which excludes food and energy, did continue to cool down, rising 6% over the last year versus the 6.2% and 6.5% increases in April and March, respectively.

Following their June policy meeting, the Federal Reserve moved more aggressively to tackle inflation by raising rates 75 basis points, the largest increase in the benchmark rate since 1994. In his press conference, Fed Chairman Powell indicated that a 50 to 75 basis point increase is on the table for their next meeting in July as well, but that he does "not expect moves of this size to be common." The market's reaction was cautiously optimistic, with the S&P 500 increasing 1.46% on the day of the announcement and yields on 2-year and 10-year US government bonds falling. As with earlier this year, expectations around inflation and Fed policy continue to shift and adjust to the latest data, occasionally sparking periods of volatility across global capital markets.

The bottom line: Volatile market performance, coupled with potentially softening economic data, is worrisome. However, we've seen how markets and economics have the potential to turn around quickly and return to growth mode. We will continue to follow the data and utilize it to make prudent portfolio decisions, though markets may continue to be choppy in the months ahead.

Sources:
1. Bloomberg
2. Bureau of Economic Analysis
3. Census Bureau
3. Bureau of Labor Statistics
4. University of Michigan

Disclosures

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan.

The S&P 500® Index, or the Standard & Poor's 500® Index, is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.