Dreher Investment Services, Inc.
Economic Review: 2nd Quarter 2022 July 13, 2022

Market Review: 2Q-22

Equity markets continued their descent in the 2nd Quarter with the S&P 500 plummeting **-16.73%**, pushing the index into bear market territory for the first time since the 2020 Covid-19 downturn. Markets will remain under pressure with threats of global recession and a hawkish Federal Reserve aggressively hiking rates to combat decades high inflation.

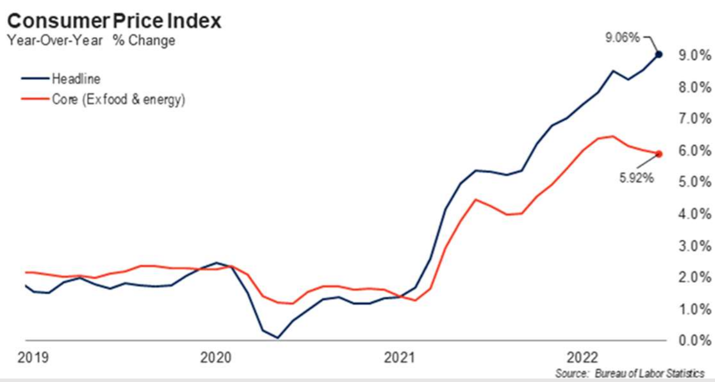
Fixed income investments were not shielded from market turmoil, with U.S. Treasury rates increasing on the back of a 1st quarter that was the worst we have seen since the 90's. The 10-Year U.S. Treasury Note started the quarter **2.32%** and closed at **2.89%.**

Market Indices

Index	2Q-22	1Q-22	1-Year
S&P 500 (Large)	(16.73%)	(4.62%)	(12.37%)
S&P 400 (Mid)	(16.28%)	(4.64%)	(16.49%)
S&P 600 (Small)	(15.28%)	(5.02%)	(18.49%)
Barclays Aggregate (Bonds)	(4.44%)	(6.19%)	(10.25%)

Inflation

Inflation continued to rear its ugly head, with June year-over-year headline inflation increasing **+9.1%**. Recent data suggests that inflation may start moving down over the coming months as consumer spending has started to dry up. Stories of supply chain normalization and excess inventories have yet to manifest. Inflation is still much too high and the Fed will continue its aggressive attempt to lower it with continued tightening by raising interest rates.



Economic Indicators

Indicator	2Q-22	1Q-22	1-Year
U.S. GDP	~(1.5%)	(1.6%)	~ 1.4%
Non-Farm Payrolls	1.12 M	1.62 M	6.28 M
Unemployment Rate	3.6%	3.6%	5.4%
Headline Inflation	2.6%	2.6%	9.1%
Core Inflation	1.9%	1.4%	5.9%
Corporate Earnings Y/Y	~4.1%	11.3%	-
Corporate Revenues Y/Y	~10.1%	13.9%	-
Federal Funds Upper Limit	1.75	0.50	0.25

~ Denotes Future Estimate

Federal Reserve

The Fed raised rates by 75-basis points in June, which was higher than the 50-basis point increase that they communicated weeks prior. The Fed will likely continue to increase rates throughout the year, as they remain committed to taming inflation by slowing down economic growth. The prospect of an economic recession is growing as abnormally high prices have curbed spending. *The Fed will remain under pressure as investors worry they will raise rates too much in the battle with inflation.*

Oil

Crude prices fell drastically to start the third quarter, dropping under $100 per barrel for the first time in months. Concerns about a global recession are growing and demand reductions are being priced in. This drop in price will give consumers some much needed reprieve at the pump. *As long as the Russian and Ukrainian war continues, Crude will likely remain volatile as many global factors remain unknown for the months to come.*

Strategic Market Outlook

The U.S. equity markets officially closed the 2nd quarter in bear market territory with the S&P 500 being down **-20.58%** year-to-date. The Federal Reserve remains the primary focus of investors and the idea of a recession becomes more prevalent every day. **We will continue to be patient with any new equity buying, as the market may not find its footing until later this year.**

U.S. fixed income levels continued to rise drastically during the quarter as the yield curve continues to price in further Fed rate hikes. Most investors believe the Fed raising rates will end in recession, causing the Fed to cut rates in the future. **We will use increased interest rates to buy high quality bonds with longer duration in the fixed income sector.**

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