Monthly Commentary & Economic Outlook

MEMBERS TRUST COMPANY

August 1, 2022

The equity markets had a strong rebound in July overall, as the S&P 500 was up +9.22**%**, US small caps +10.01%, US mid-caps +10.85%, international developed +5.23%, and emerging markets +0.13%[1].

The best returns for equity markets often come immediately after the worst returns for equity markets. That has a lot to do with why we shifted to overweight equities for accounts in our primary Investment Strategies on 6/14/22, near the recent equity market lows; since then, the S&P 500 has jumped +10.75%[1]. Investors who stayed the course despite the -19.96% decline in the S&P 500 in the first six months of the year have been rewarded in July[1]. While equities are no longer quite as attractive as they were on 6/14/22, we remain overweight equities as valuations remain favorable with the S&P 500 -14.28% below the 1/4/22 all-time highs[1]. When equities are at attractive valuation levels, they are often able to move higher in spite of negative news. Equity markets rallied in July despite receiving news on 7/13/22 that inflation surged to +9.1% year-over-year in June (based on the Consumer Price Index), the US Federal Reserve ("Fed") announced another aggressive 0.75% rate hike on 7/27/22 and on 7/28/22 the Bureau of Economic Analysis announced preliminary US GDP (a measure of economic growth) data indicating a -0.9% annualized decline for 2Q22, which would mark a second consecutive quarter of GDP declines[2,3].

The 10yrTy declined in July from 3.02% to 2.65%, causing investors in Treasury bonds to benefit from a rise in their prices[1]. Investors in our primary Investment Strategies have benefitted from our decision in mid-April to modestly increase the average maturity in bond portfolios when the 10yrTy was closer to 3%. We believe that inflation could remain above the Fed's 2% target for a long time, which could cause interest rates to move higher once again. As such, if interest rates were to continue to decline significantly from current levels, we would likely take profits on our mid-April fixed income trades by reducing the average bond maturity.

Indicator	Outlook
Gross Domestic Product (GDP)	🟡
Unemployment	🟢
Consumer Price Index (CPI)	🔴
Fed Policy	🔴
Interest Rates	🟡
Dollar Strength	🟡
Market Valuations	🟢

🟢 = Positive Indicator, 🟡 = Neutral Indicator, 🔴 = Negative Indicator

External sources: Bloomberg data[1], CNBC.com[2], Bureau of Economic Analysis[3].

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