

Markets rallied in July, contrary to most investors' expectations

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Markets have been volatile and recently bottomed amid bearish sentiments. The S&P 500 Index fell to 3667 on June 16th and subsequently rallied back to 4130 at the end of July. So, what happened between June 16th and July 31st to drive such a significant shift? The US Federal Reserve hiked rates by 75 basis points on June 15th and remained hawkish. The US economy tipped into recession as it reported two consecutive quarters of negative real GDP growth. Inflation reached a new high in June (US CPI: annual rate of 9.1%) but cooled in July (8.5%). Commodity markets started to adjust for recessionary demand. Oil prices (Crude WTI), for example, have fallen 16% since June. Consumer sentiments fell and CEO confidence reached very low levels. Inventory (ex. auto) was building as consumers turned cautious.

Based on the market data from July, it was hard to believe the S&P 500 Index was higher, not lower. The reality is markets typically bottom when investors have unrealistically bearish expectations. While there was a lot of bad news during June and July, it was not as bad as expected. In addition, second quarter corporate earnings were higher, albeit at lower rates compared to the past few quarters.

So where do we go from here? The next few months we will probably hear a mix of good and bad news. Bad news will include weaker corporate earnings, continued rate hikes (probably for another 75 -125 basis points), weak residential demand, as well as slower job growth and pay. All of these factors will contribute to weaker consumption and some deflationary pressure. The good news will be lower inflation, but don't get too excited. Inflation may remain above trend, likely at 4-5% in the next 12 months and then 3% in 2024. Rates may peak in the next six to nine months and stay there for years, not months. The markets expect economic slowdown to force central banks to cut rates directly following the peak rates. However, we think that expectation is too aggressive. There are also other risks in the markets, such as inflation from Europe driven by labour strikes and uncertainties in energy supply. This could change rate expectations and cause recession to be severe, leaving markets in a state of stagflation.

Since markets have rallied in July and August, we are moving a portion of the portfolio to cash as we anticipate more "back-and-forth" in market sentiments and valuations.

Combined top 15 equity holdings as of July 31, 2022 of the Assante Private Portfolios 40i60e Standard portfolio with Alphastyle exposure:

1. Microsoft Corporation	6. Royal Bank of Canada	11. Intact Financial Corp.
2. Amazon.com Inc.	7. Canadian Natural Resources Limited	12. WSP Global Inc.
3. Suncor Energy Inc.	8. Taiwan Semiconductor Manufact.	13. Mastercard Incorporated
4. Alphabet Inc. Class A	Co., Ltd. Sponsored ADR	Class A
5. Brookfield Asset	9. Meta Platforms Inc. Class A	14. Analog Devices, Inc.
Management Inc. Class A	10. Humana Inc.	15. Element Fleet Management Corp.



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