

MARKET REVIEW

TUESDAY, AUGUST 23, 2022

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MARKET COMMENTARY

Drivers behind the rebound in stock markets from mid-June include encouraging inflation data, reasonably solid second quarter corporate profit reports, and assurances from the U.S. Federal Reserve of adhering to a data-dependent approach to judge the pace and magnitude of future rate increases. The sustainability of this rally will ultimately rest on corporate earnings and an appropriate valuation multiple applied to them.

With unemployment at a historical low and inflation unacceptably high, interest rates will continue to move higher to slow overall aggregate demand and dampen longer-term inflation expectations. Supply chain bottlenecks are easing albeit at gradual pace. Ongoing improvement will be helpful to resolve the supply and demand imbalances and to alleviate upward price pressures.

The U.S. Treasury yield curve inversion is concerning due to its historical accuracy of predicting a recession. However, if a recession materializes, the lead time from the point of inversion to the start of a recession varies quite widely anywhere from six months to 24 months. At this juncture, the debate between a soft or hard landing remains unresolved.

Investors cannot control the economic cycle. And as history has shown, even the most qualified professionals find it difficult to make accurate economic forecasts. Instead, investors should focus on owning a diversified portfolio of financially strong and profitable companies in attractive businesses. While purchasing at attractive prices is beneficial, borrowing a quote from renowned investor Bill Miller, “it’s time, not timing that leads to building wealth in the stock market.”

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