DVI
DAVID VAUGHAN INVESTMENTS

Capital Markets Commentary

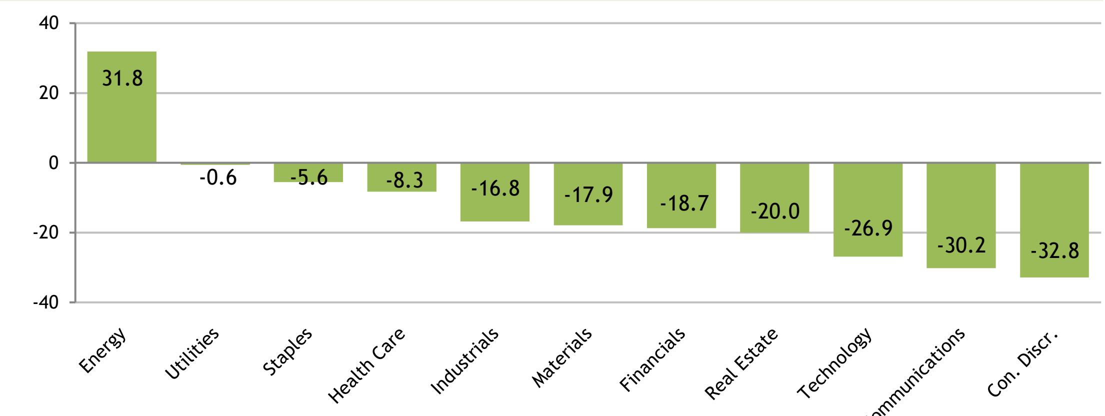
06/30/2022

Stocks and bonds delivered negative returns through the end of the second quarter. A more aggressive policy stance by the Federal Reserve, through rate hikes and decreased purchases of government bonds, is playing out in efforts to tame persistent levels of high inflation. The May Consumer Price Index (CPI) was 8.6%, the highest level since 1981. Supply-chain bottlenecks from COVID lockdowns in China and geopolitical conflicts involving Russia/Ukraine have reduced supply of foreign imports, although restrictions in Shanghai are beginning to ease. For the quarter, the S&P 500 lost 16.1%.

Energy is the only sector in the market with a positive return YTD despite a 5% decline in the second quarter. The outperformance is driven by supply-side constraints and sanctions against Russian oil. All sectors of the market were down in the second quarter with Consumer Discretionary (-26%) and Communications (-21%) performing worst. The Consumer Staples and Utilities sectors held up best, but each lost 5% during the quarter. Small cap stocks underperformed the S&P 500 for the quarter while international stocks performed slightly better.

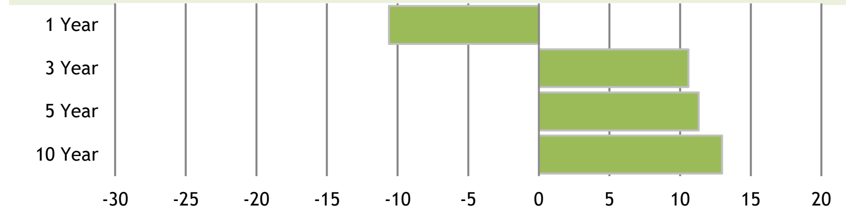
Interest rates continued to move higher as the Federal Reserve raised short term rates. The Fed Funds target rate is currently 1.50-1.75% and most analysts see it moving above 3% by year-end. The 2-year Treasury yield rose from 2.29% to 2.93% during the quarter. The 10-year Treasury yield rose from 2.32% to 2.98% during the quarter, peaking at 3.48% in June. The Bloomberg Aggregate Bond Index lost 4.7% for the quarter.

S&P 500 Index: Sector Returns Percent Year-to-Date

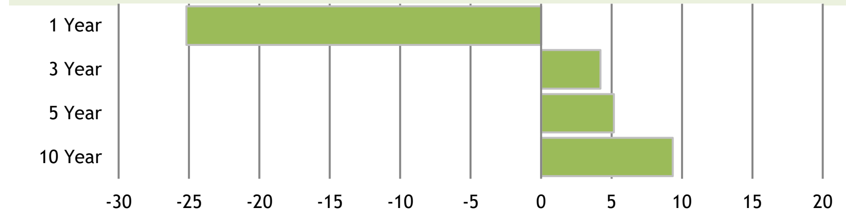


Source: Morningstar

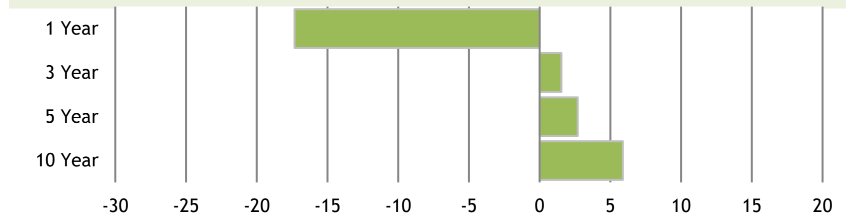
S&P 500 **Average Annual Percent Total Return**



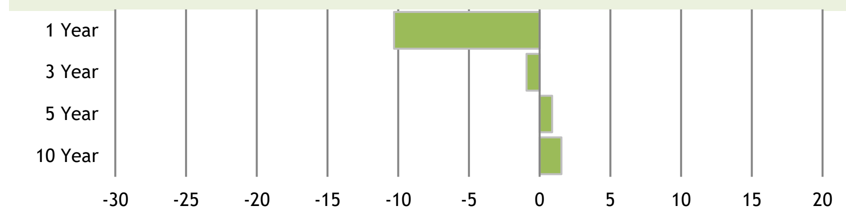
Russell 2000 Small Cap Index



MSCI EAFE International Index



Barclays Capital US Aggregate Bond Index



Barclays US Treasury Bill 1-3 Month