GALLIGAN FINANCIAL ADVISORS
A Personal Approach to Comprehensive Financial Management

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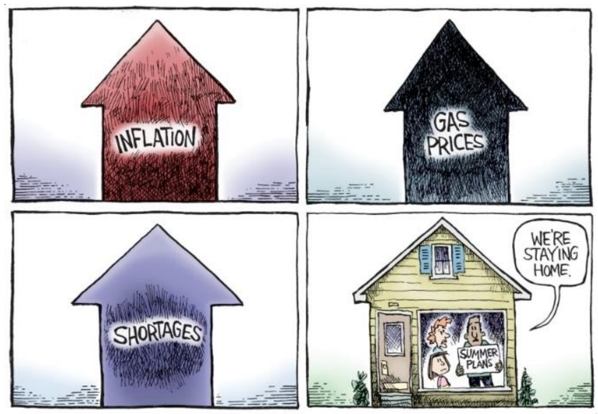
JULY 2022 - INVESTMENT ADVISORY NEWSLETTER

THE ECONOMY

Rising interest rates to combat global inflation are providing a headwind for the global and U.S. economy. The Federal Reserve is expected to raise rates 75 basis points in the next two months which is setting off alarms worldwide. Comparing the comments of President Biden's administration, the Federal Reserve, and the recent spate of economists' forecasts, one might think they're all living in different worlds. Treasury Secretary Janet Yellen repeated the mantra this weekend that a recession isn't "at all inevitable." Fed Chair Jerome Powell maintains that a soft landing is possible, a view reinforced by St. Louis Fed President James Bullard. At the same time, Goldman Sachs is doubling the odds of a recession in the upcoming year to 50%. Deutsche Bank economists forecast a recession but not until the second half of 2023. Lawrence Summers, a former Treasury Secretary who predicted higher inflation a year ago, believes we won't get control of inflation without increasing unemployment from 3.6% to over 6% later this year. It should be noted that neither Jerome Powell nor Janet Yellen predicted inflation to zip to a four-decade high this year. The average rate on the popular 30-year fixed mortgage jumped to 6% from 3.2% at the start of the year, and the median home price rose to $400K. The average price of a gallon of gas across the nation rose to $5 a gallon for the first time ever, up from $2 a gallon this time last year. Good luck buying a new car. Supply chains for parts remain an issue for new car purchases nationwide.



Economists surveyed by *The Wall Street Journal* this month have raised the probability of recession, now putting it at 45% in the next 12 months, a level usually seen only on the brink of recession and higher than their January 18% projection. The likelihood of a recession has increased as inflation increased to 8.6%, and the Federal Reserve took aggressive action by raising their interest rate by .75% with indications there was more to come until inflation was under control. Forecasters have raised recession forecasts due to a number of factors: higher borrowing costs; high inflation; supply-chain problems; and commodity-price shocks stemming from the war in Ukraine. They see dimming chances that a steeper path of rate increases can cool inflation without inducing higher unemployment and a recession. They expect unemployment to rise from 3.6% in June to an average of 3.7% at the end of 2022 and 4.2% at the end of 2023. Economists still expect the economy to grow this year, although they see inflation-adjusted gross domestic product rising just 1.3% in the fourth quarter of 2022, down from 2.6% in the April survey. Last year the economy grew 5.5%, the fastest since 1984, following a 2.3% drop in 2020 when the pandemic began. 8% inflation with 1.3% growth has economists ready to declare that we are in a stagflation economy.

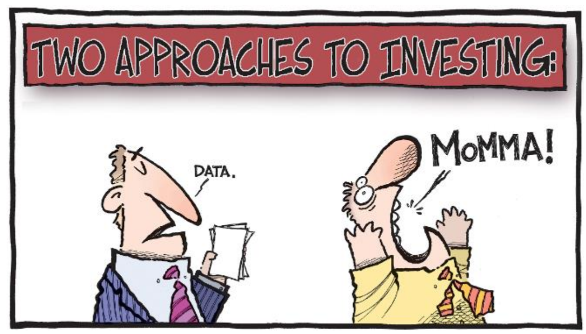
MARKET PERFORMANCE – Interest Rate Hike with the Increased Risk of Recession Roil Markets

China and Managed Futures funds recorded the best gains in June. Energy and Basic Materials funds were the worst performers, with each falling over 15% in one week. June was even more volatile than April or May which were the most volatile in 14 years. All 11 S&P sectors were negative for the month! Blood pressure pills are still in order!

- S&P 500 – down 8.3% for June & down 20.8%YTD
- NASDAQ OTC – down 8.3% for June & down 28.6% YTD
- Global Equity. – down 7.8% for June & down 23.7% YTD
- Global Bonds – down 1.7% for June & down 10.6% YTD
- Balanced Index – down 6.3% for June & down 17.7%YTD

RECOMMENDATIONS – Markets React to Rate Hikes, Inflation, and Recession Forecasts

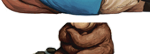
Jamie Dimon, CEO of JP Morgan, proclaimed 'brace yourself' for an economic hurricane caused by the Fed and Ukraine war. He got it mostly right but should have added to 'brace yourself' for a stock market hurricane caused by a pending recession. The markets seemingly shifted concerns away from inflation and interest rates to the possibility of the economy falling into recession sooner rather than later. It now seems that almost no one now believes that the economy can achieve a soft landing in the face of inflation and higher interest rates. Federal Reserve Chairman Jerome Powell, in any case, deserves credit for last week's 3-day rally. In his testimony before Congress, he said that engineering a soft landing had become "very challenging," suggesting that getting inflation under control could lead to a recession. Under normal circumstances, that would be a worrisome sign. But everyone was already talking about the possibility of a slowdown, so his acknowledgment of the possibility served as a strange source of relief, if only because it might mean less-aggressive rate hikes in the future. NASDAQ and the S&P500 are clearly in bear territory having fallen more than 20% from their recent highs. Through June 15, the three best performing stock market sectors were Energy (+60%), Commodities (+48%), and Utilities (+7%). Since June 15, they are among the worst performing sectors, down 20%, 12%, and 8%, respectively. Energy fell 15% in one week and then rallied 5% last week only to fall again this week. Oil reached $120/barrel this month only to fall to $111/barrel even with China lifting lockdown restrictions. Copper has dropped 18% in the past three weeks, a clear indication that commodity traders foresee a recession. XCEL (+6%) and United Healthcare (+2%) are the only local stocks posting positive results thus far this year. Wells Fargo and US Bank are both down 18%. Delta, Microsoft, Charles Schwab, and 3M are all down between 20%-30%. Ecolab, Target, Amazon, and General Motors are down more than 30%. The *University of Michigan* consumer sentiment report was downwardly revised this week to a record low of 50. The last two weeks produced the worst June performance in 50 years. We are severely in need of some good news.



Stocks and bonds continue to fall in tandem, leaving investors with few places to hide from the market volatility that remains quite high even in what's traditionally thought to be defensive balanced, target based 60/40, and even pure bond funds. Stocks and bonds have both retreated since the Federal Reserve embarked on a campaign to raise interest rates to combat inflation. Long/Short and Managed Futures funds have taken the place of bonds to hedge portfolios against large losses. Long/Short funds can short stocks. Managed-Futures funds use futures contracts to bet on or against trends across different asset classes. Our client portfolios have roughly 60% allocated to Long/Short and Managed Futures funds with 40% allocated to the S&P500 value, Commodity, and Asian overseas funds. Volatility is off the charts. The Total U.S. Stock Market is on track for its worst first-half year performance since 1970, down over 20% this year. The question is when we will hit a market bottom and get a turning point. We need to see the combination of inflation having peaked and interest rate data having stabilized.

On the positive side:

- The economy is slowing which may slow the planned increase in interest rates.



On the negative side:

- The Fed is set to raise interest rates multiple times this year to slow inflation.
- The Russia/Ukraine standoff remains a full fledged assault that affects food and energy costs.
- Inflation is global, and major concerns exist with supply chains raising costs.

We reacted to the market turbulence by exchanging more of our diversified holdings into Managed Futures, and Long/Short funds as hedges to counter market declines and market volatility.

RELATIVE STRENGTH RANKINGS

Relative strength rankings indicate short-term (1-3 months) historical performance.

No-Load Funds that are highly diversified should constitute the "core" holdings in a portfolio.

- RYZAX Rydex S&P500 Value
- MCHFX Mathews China Fund

Industry Specific Sector and Balanced Funds

- VMNFX Vanguard Market Neutral
- RYMFX Guggenheim Managed Futures (Long/Short) fund