ECONOMY

Our view of the road ahead

THINK STRATEGICALLY:

A Look At the Second Half of 2022

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As the first half of the year wraps up, it is the right time to assess significant events, both in the markets and geopolitically, focusing on the road ahead and the future. We begin the year's second half with the four indices we follow, all of which are in negative territory:

– Dow Jones Industrial Average has a -13.31 percent return.
– S&P 500 has a -17.93 percent return.
– Nasdaq Composite has a -25.81 percent return.
– Birling Puerto Rico Stock Index has a -7.38 percent return.

The results of the major indices over the first six months of the year are the worst in 52 years; you have to go back to the 1970s. In broader terms, inflation and the Federal Reserve raising interest rates aggressively to compensate for almost a year of inaction are the main culprits of the results, which were caused by a pessimistic outlook.

Let us take a look at 12 points on the road ahead:

– The U.S. gross domestic product forecast for Dec. 31 is $20.1 trillion, or 1.04 percent; for Dec. 31, 2023, it increases to $20.64 trillion, or 2.61 percent, and for Dec. 31, 2024, it rises to $21.53 trillion, or 4.13 percent.

– The GDPNow model estimate for real GDP growth in the second quarter of 2022 was zero percent on June 16.

– The Fed's GDP projection for 2022 is 1.7 percent; for 2023, 1.7 percent; and for 2024, 1.9 percent.

– The U.S. economy will slow in the next two quarters as a reflection of the Fed's monetary policy tightening.

– The year-to-date market sell-off provides greatly improved returns for long-term investors.

– We expect demand to slow as consumers and businesses adjust to the rise in borrowing costs. Usually, when the Fed increases rates, mortgage and auto loans are the first to slam the brakes.

– The labor market remains complex, with more job openings than job seekers. The job openings are at 11. 4 million, and job seekers at 5.02 million, a 56 percent deficit. Lastly, unemployment claims have been rising tepidly, with most businesses taking a more conservative stance on hiring.

– With the Consumer Price Index at 8.58 percent and Personal Consumption Expenditures at 6.27 percent, inflation has expanded and proven harder to fight than once thought; recall that the Fed's inflation target is 2 percent 213 percent above the preferred, which translates to a more active Fed.

– For the stock markets, we believe that volatility will continue as the markets are riddled with uncertainty regarding how much tightening the Fed will need to perform to bring down inflation.

– With the corporate earnings season beginning in three weeks, the results will give us essential information on the condition of most companies and their profits.

– While bond prices are down as interest rates reset to higher rates, the rest of 2022 will see improved returns, which may result in an opportunity to place additional money to seek those higher returns. We favor higher credit quality bonds, those rated A- or higher.

– The geopolitical scenario with Ukraine and Russia at war has created an unpredictable event forcing most commodity prices higher. Also, Russia is beginning to reduce oil supply to nations in the eurozone, most notably Germany, which has seen its supply reduced by 60 percent and is just about to start rationing its oil and gas.

While our view is that the U.S. economy is not approaching a recession, there is always the risk of the Fed acting too severely to tame inflation, which could result in a recession, and the stakes have increased.

In conclusion, we recommend that investors remain invested and firm with their financial goals while ensuring their portfolio is suitably diversified, meeting their risk tolerance levels and time horizon.

The Week in Markets: Wall Street Stages Solid Rally, Investor Sentiment falls, Roe v. Wade Repealed

The U.S. stock market closed out a week with solid gains as investors may have gained some trust in the market and are now looking for opportunities, particularly those long-term investors.

In the U.S., consumer sentiment fell to a new low of 50, a 14.38 percent decrease; down from 85.5 a year ago, a 41.52 percent drop. However, inside the report, there was mention of consumer expectation for inflation to rise at a 5.3 percent annualized rate as of June, well below the current rate, a positive development.

The University of Michigan Surveys of Consumers also found that 79 percent of the U.S. population expects hard times for the rest of the year, the most significant number since the great recession of 2009.

About 79 percent of consumers expected bad times in the year ahead for business conditions, the highest since 2009. The report also said that 47 percent of consumers point to inflation for clipping their living standards.

Another economic report that usually reacts downwards as interest rates rise is U.S. New Single-Family Houses Sold, which rose to 696,000, up from 629,000 last month, or 10.65 percent.

Lastly, two political topics became global news: the U.S. Supreme Court overturned Row v. Wade, ending the constitutional right to seek abortion, after almost 50 years. The information led to a televised speech by President Joe Biden calling the decision a "realization of extreme ideology"; this is a controversial determination that will further divide the U.S.

The second topic was the approval of the "Bipartisan Safer Communities Act," which enhances certain restrictions and penalties on firearms purchases; Biden signed the measure into law on June 25.

Among many other items, the bill will require an investigative period to review juvenile and mental health records, including checks with state databases and local law enforcement, for buyers under 21 years of age.

Weekly Wall Street summary for June 24:

– Dow Jones Industrial Average closed at 31,500.68, up 1,611.90 points, or 5.39 percent, for a YTD return of -13.31 percent.

– S&P 500 closed at 3,911.74, up 236.9 points, or 6.45 percent, for a YTD return of -17.93 percent.

– Nasdaq composite closed at 11,607.62, up 809.27 points, or 7.49 percent, for a YTD return of -25.81 percent.

– Birling Capital Puerto Rico Stock Index closed at 2,666.58, up 86.35 points, or 3.35 percent, for a YTD return of -7.38 percent.

– The U.S. 10-year Treasury note closed at 3.13 percent.

– The U.S. 2-year Treasury note closed at 3.04 percent.

Weekly Market Close Comparison	6/24/22	6/17/22	Return	YTD
Dow Jones Industrial Average	31,500.68	29,888.78	5.39%	-17.75%
Standard & Poor's 500	3,911.74	3,674.84	6.45%	-22.90%
Nasdaq Composite	11,607.62	10,798.35	7.49%	-30.98%
Birling Puerto Rico Stock Index	2,666.58	2,580.23	3.35%	-10.38%
U.S. Treasury 10-Year Note	3.13%	3.25%	-3.69%	1.60%
U.S. Treasury 2-Year Note	3.04%	3.17%	-4.10%	1.60%

The Final Word: Kaliningrad Could be WWW III Ignites

The city of Kaliningrad was, until 1946, known as the Königsberg part of Germany.

Kaliningrad, located on the Baltic Sea, is Russia's only year-round ice-free port. It is accessible from Russia by sea, air or a single train route via Russia through Belarus and Lithuania.

While former U.S. President Harry Truman and former UK Prime Minister Winston Churchill focused on Germany and the rest of Europe, former Union of Soviet Socialist Republics dictator Joseph Stalin had his eye on Russia's post-World War II future and the importance of Kaliningrad.

Kaliningrad has been of great importance in Russia's geopolitical strategy to an even greater degree since 1999, when Estonia, Latvia, Lithuania and Poland joined the European Union.

Lithuania, a member of the European Union, has to comply with sanctions on Russia for invading Ukraine.

The sanctioned materials represent a quarter of Kaliningrad's total supplies via rail from Russia.

It turns out that Russia is now accusing the EU of "blockading" Kaliningrad via Lithuania.

Russian President VladimirPutin is following a path that may result in World War III.

Francisco Rodríguez-Castro is president and CEO of Birling Capital LLC. Think Strategically© is a publication by Birling Capital LLC that summarizes recent geopolitical, economic, market and other developments. This report is intended for general information purposes only and does not represent investment, legal, regulatory, or tax advice. Recipients are cautioned to seek appropriate professional counsel regarding any of the matters discussed.