# WEEKLY MARKET INSIGHTS

*May 23, 2022*

INVESTMENT MANAGEMENT GROUP | ARVEST

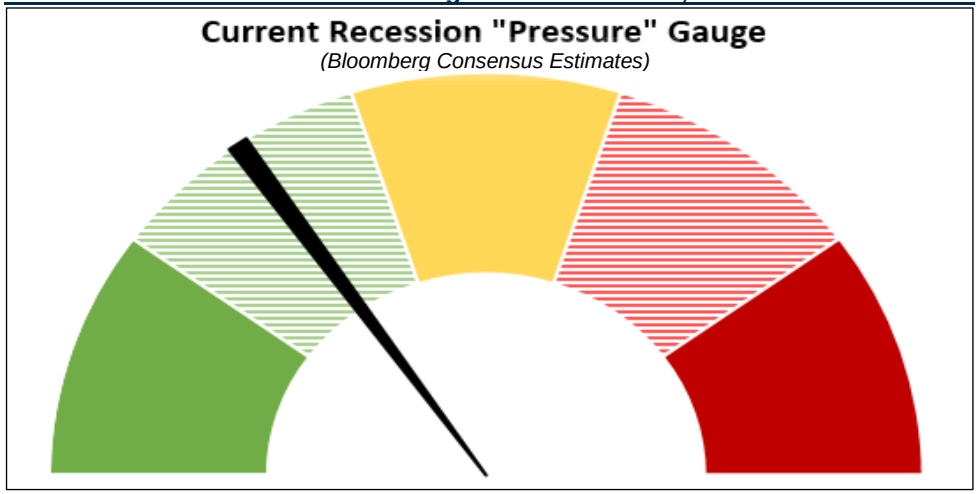
**"Forecasts usually tell us more of the forecaster than of the future" – Warren Buffett**

One of the few instances where you can find kids intently watching a weather forecast is when they are anticipating a snow day at school. I have a keen memory of a specific instance from my childhood. In this instance, Kansas City was supposed to get nearly 11 inches of snow overnight. At the time, schools never called off until there was actually snow on the ground. Yet, in my mind, school would surely be cancelled if we got even half of that. So I procrastinated on my homework, thinking I had an extra day to complete it. Well, I woke up to barely a dusting of snow and my school wasn't listed on the "school closings" ribbon on the bottom of my television. Safe to say, I have yet to forgive the local weatherman responsible for that forecast. I can sympathize nowadays though. Trying to forecast an exact weather pattern is hard, and so is trying to forecast an economic recession. Even in the best of times, there is always a risk of a recession occurring that isn't captured with available data (e.g. COVID-19)

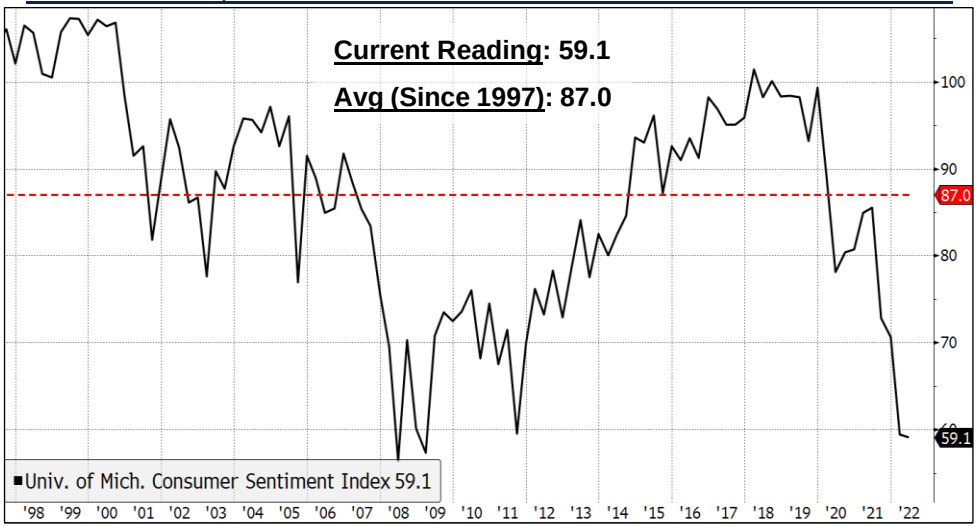
Both weather forecasts and economic recession forecasts are educated guesses made with the best interpretation of the data on hand, which will typically get "in the ballpark" of what actually happens. These forecasts are meant to provide a general framework for ***preparation***, not specific prescriptions. Weather can affect a person's day in vastly different ways depending on type of weather event, work/school arrangements, number of kids you have, where you live, etc. Similarly, an economic recession affects people differently too. It is the individual investor's responsibility to understand how a recession might affect them and to prepare accordingly. Investors who take these forecasts as a foregone conclusion run the risk of showing up to school unprepared if the blizzard turns into a dusting. Those who ignore the forecast run the risk of being on the road in a blizzard they are unprepared for.

At Arvest, we have tried to provide our clients with the educated framework we use for understanding forward looking economic data (i.e. "leading economic indicators"). It can be a bit of a labyrinth of terminology though, so we've decided to try and make our recession outlook a little easier to digest going forward (see chart, top right). Leading economic indicators are data points that have historically shown to be early warning signals for which direction the economy is trending. Things such as new construction, initial jobless claims, consumer sentiment (see chart, bottom right), etc. can help inform investors about where and how money is flowing through the economy. ***(cont.)***

**Economic Indicators Point to Rising Recession Risks, But Still Not Imminent**




**Due to Inflation, Consumer Sentiment Is at Levels Last Seen in 2008/2009**




Sources: Top – Bloomberg LP, Arvest Wealth Management; Bottom – Bloomberg LP

## ABOUT INVESTMENT MANAGEMENT GROUP

Arvest Wealth Management currently manages over $14 billion in client assets by providing a diverse mix of services including brokerage, trust, investment management, retirement plans, IRAs, custodial accounts, estate settlement and insurance. We are people helping people find financial solutions for life. The Investment Management Group is a registered investment advisory within Arvest Wealth Management, founded in 2011, and responsible for managing approximately $750 million in assets.

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Theoretically, this should give a good picture about economic trends since economic growth is essentially just an after-the-fact tabulation of where money has been allocated. Measuring the economic activity in real time should give a good base for estimating future trends. We typically start to get more concerned about a recession when the probability gets closer to 40-50% (i.e. in the yellow on the "pressure" gauge). At that point, the economic stresses become more obvious. It may feel weird to say that we're not there yet, as inflation is eating away at disposable incomes and savings. Falling consumer sentiment seems to confirm that feeling, which can become a self-fulfilling prophecy as economic pessimism can change consumer behaviors. If inflation does ease up soon though, that sentiment can reverse as quickly as it dropped.

Ultimately, economics is about understanding short- and long-term trends in consumption/production. Recession forecasting tries to measure short-term economic conditions through a mosaic of consumer/producer data, similar to a meteorologist forecasting tomorrow's storm risk using available atmospheric data. It's nice to put in neat mathematical terms, but elegance is not the same as accuracy in predictions. The necessary conditions for a storm to occur does not mean a storm will occur (just ask my younger self). There are too many unknown variables that can cause a trend reversal in either direction. As Donald Rumsfeld famously stated, "there are known knowns, these are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns, the ones we don't know that we don't know." The output of a recession (or weather) forecast says more about the forecasters understanding of that uncertainty framework than it does the future, but they can still be useful in making informed decisions.

**Next Monday is Memorial Day, the "official" start of lake season. We will not publish next week to relax with family & friends. We hope you can too.**

## JOIN OUR MONTHLY MARKET CALL

The Arvest Investment Management Group hosts a monthly Market Viewpoint webinar. To join us for our next meeting, please contact Charles Kurtz at ckurtz@arvest.com.


**Alex Jantsch, CFA, CAIA®**
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Alex supports the portfolio management team through market research that aids asset allocation decisions and due diligence on third party investment managers. He has a BSBA in finance, as well as a certificate in integrated investment management, and holds the CFA designation as a member of the Chartered Financial Analyst Institute and the Kansas City Society of Chartered Financial Analysts.

## CURRENT ASSET CLASS OUTLOOK

| Equities | Current |
|---|---|
| *U.S. Equity* | Neutral |
| *Int'l Equity* | Slightly Favorable |
| *Emer. Mkts* | Slightly Favorable |

| Real Assets | Current |
|---|---|
| *Real Estate* | Slightly Unfavorable |
| *Infrastructure* | Neutral |
| *Commodities* | Neutral |

| Fixed Income | Current |
|---|---|
| *Invest. Grade Credit* | Neutral |
| *Treasury/Agency* | Neutral |
| *Mortgage (MBS)* | Slightly Unfavorable |
| *Commercial MBS* | Slightly Favorable |
| *Asset Backed (ABS)* | Favorable |
| *High Yield* | Neutral |
| *Emer. Mkts Debt* | Neutral |
| *Taxable Muni* | Favorable |
| *Tax-Exempt* | Favorable |
| *Tips* | Slightly Unfavorable |

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## Market Returns & Rates (as of 5/20/2022)

| Asset Class | Sub-Asset Class | Index | YTD | 1-Year | 3-Year | 5-Year | 10-Year | 2021 |
|---|---|---|---|---|---|---|---|---|
| Equity | U.S. Large Cap Equities | S&P 500 | -17.67% | -4.87% | 13.01% | 12.25% | 13.68% | 28.68% |
| Equity | U.S. Mid Cap Equities | S&P 400 | -15.64% | -9.96% | 9.95% | 8.40% | 11.62% | 24.73% |
| Equity | U.S. Small Cap Equities | Russell 2000 | -20.68% | -18.82% | 6.43% | 6.51% | 10.22% | 14.78% |
| Equity | Developed ex. U.S. Equities | MSCI ACWI ex U.S. | -13.83% | -13.59% | 5.18% | 4.16% | 6.38% | 8.32% |
| Equity | Emerging Markets Equities | MSCI Emerging Mkts | -15.36% | -20.10% | 4.07% | 3.32% | 4.03% | -2.32% |
| Fixed Income | Broad Aggregate | BB Aggregate | -9.18% | -8.11% | 0.34% | 1.19% | 1.72% | -1.54% |
| Fixed Income | U.S. Treasury | BB U.S. Treasury | -8.09% | -6.88% | 0.36% | 1.01% | 1.15% | -2.32% |
| Fixed Income | U.S. Treasury Inflation Prot. | BB U.S. Inflation Linked | -6.91% | -1.42% | 4.88% | 3.72% | 2.03% | 6.00% |
| Fixed Income | U.S. Investment Grade | BB U.S. Invest. Grade | -12.73% | -10.51% | 0.86% | 1.81% | 2.93% | -1.04% |
| Fixed Income | U.S. High Yield | BB U.S. High Yield | -11.03% | -8.01% | 1.95% | 2.93% | 5.08% | 5.28% |
| Fixed Income | U.S. Leveraged Loans | CS Leveraged Loan | -2.61% | -0.17% | 2.66% | 3.38% | 4.15% | 5.40% |
| Fixed Income | U.S. Municipals | BB Municipal Bond | -10.16% | -9.32% | -0.34% | 1.29% | 2.24% | 1.52% |
| Fixed Income | Non-U.S. Gov't Bond | FTSE Non-U.S. WGBI | -14.40% | -19.09% | -3.74% | -1.55% | -1.22% | -9.68% |
| Fixed Income | Emerging Markets Debt | JPMorgan EMBI | -15.85% | -15.06% | -2.05% | -0.23% | 2.74% | -1.51% |
| Real Assets | Real Estate | FTSE NAREIT | -17.54% | 1.29% | 5.48% | 6.38% | 8.35% | 43.24% |
| Real Assets | Master Limited Partnerships | Alerian MLP | 20.59% | 19.76% | 2.71% | 0.58% | 1.77% | 39.85% |
| Real Assets | Broad Commodities | Bloomberg Commodity | 31.64% | 43.63% | 17.75% | 8.90% | -0.39% | 27.05% |
| Real Assets | Oil | WTI Crude | 50.55% | 82.48% | 21.52% | 17.61% | 2.16% | 55.01% |
| Real Assets | Gold | Gold COMEX | 0.74% | -2.11% | 12.98% | 8.00% | 1.47% | -3.51% |

| Key Market Interest Rates | Current Rate | 1 Month Ago | 2 Months Ago | 3 Months Ago | 4 Months Ago | 6 Months Ago | 1 Year Ago |
|---|---|---|---|---|---|---|---|
| Federal Funds Rate | 0.83% | 0.33% | 0.33% | 0.08% | 0.08% | 0.08% | 0.06% |
| Secured Overnight Fin. Rate (SOFR) | 0.79% | 0.27% | 0.29% | 0.05% | 0.04% | 0.05% | 0.01% |
| 90-Day Treasury Rate | 0.98% | 0.74% | 0.44% | 0.30% | 0.13% | 0.03% | -0.04% |
| 2-Year Treasury Rate | 2.58% | 2.58% | 2.12% | 1.47% | 1.02% | 0.50% | 0.15% |
| 5-Year Treasury Rate | 2.80% | 2.86% | 2.32% | 1.82% | 1.59% | 1.22% | 0.81% |
| 10-Year Treasury Rate | 2.78% | 2.83% | 2.29% | 1.93% | 1.80% | 1.59% | 1.63% |
| 30-Year Treasury Rate | 2.99% | 2.87% | 2.52% | 2.24% | 2.12% | 1.97% | 2.33% |
| 3-Mon/10-Yr Treasury Spread | 1.80% | 2.09% | 1.85% | 1.63% | 1.67% | 1.55% | 1.66% |
| 2-Yr /10-Yr Treasury Spread | 0.20% | 0.26% | 0.17% | 0.46% | 0.78% | 1.08% | 1.48% |
| 6-Month CD Rate | 0.39% | 0.16% | 0.15% | 0.14% | 0.14% | 0.15% | 0.16% |
| 1-Year CD Rate | 0.78% | 0.35% | 0.32% | 0.28% | 0.28% | 0.29% | 0.30% |
| 2-Year CD Rate | 0.95% | 0.39% | 0.35% | 0.32% | 0.32% | 0.32% | 0.34% |