

The Nasdaq-100 Index gained 16.4% since June 16



Equities Rebound in July

Despite some turbulent months in the first half of the year, equities posted strong returns in July given the Nasdaq-100 Index gained 16.4% since June 16th, likely on the back of an anticipated dovish Federal Reserve. For the month, US growth was the best performer (+12.5%), followed by US mid-caps (+10.9%) and US small-caps (+10.1%). Bonds also fared well as high yield credit returned 6.7%, investment grade corporates gained 4.4%, and TIPs rose 4.3%. Commodities posted mixed returns as both broad-based commodities and silver were up (+3.8% and +0.3%, respectively) while both gold and crude oil fell (-2.6% and -2.9%, respectively).

Exhibit 1: Trailing Returns as of July 29, 2022

	Index/ETF	1-Mo	YTD	1-Y	3-Y	5-Y
Equities	US Growth (QQQ)	12.55%	-20.46%	-13.45%	18.22%	17.84%
	US Mid-Caps (SPMD)	10.91%	-10.81%	-5.78%	10.19%	8.95%
	US Small-Caps (SPSM)	10.09%	-10.85%	-6.53%	10.28%	8.86%
	US Large-Caps (SPY)	9.21%	-12.62%	-5.17%	12.80%	12.73%
	US Value (IVE)	5.91%	-6.26%	-0.65%	9.17%	9.00%
	International Developed Equities (IEFA)	5.44%	-15.10%	-15.03%	3.35%	2.93%
	Broad-based Emerging Markets (IEMG)	0.00%	-17.07%	-20.38%	1.49%	1.34%
US Fixed Income	High Yield Credit (HYG)	6.69%	-7.99%	-7.19%	1.06%	2.32%
	Investment Grade Corporate Bonds (LQD)	4.44%	-12.35%	-13.58%	-0.03%	1.90%
	Treasury Inflation Protected Notes (TIP)	4.30%	-5.12%	-3.62%	4.31%	3.81%
	US Treasury 7-10 Year (IEF)	2.96%	-7.91%	-9.38%	-0.18%	1.28%
	US Aggregate Bond Index (AGG)	2.54%	-7.88%	-8.88%	-0.16%	1.24%
	Municipal Bonds (MUB)	2.26%	-5.76%	-6.08%	0.53%	1.79%
Commodities	Broad-based Commodities (BCI)	3.79%	22.62%	24.40%	15.73%	8.27%
	Silver (SLV)	0.32%	-13.06%	-21.18%	6.68%	3.41%
	Gold (GLD)	-2.59%	-4.01%	-4.13%	6.85%	6.34%
	Crude Oil (USO)	-2.86%	43.58%	54.17%	-6.19%	-0.83%

Source: FactSet. Data as of July 29, 2022.

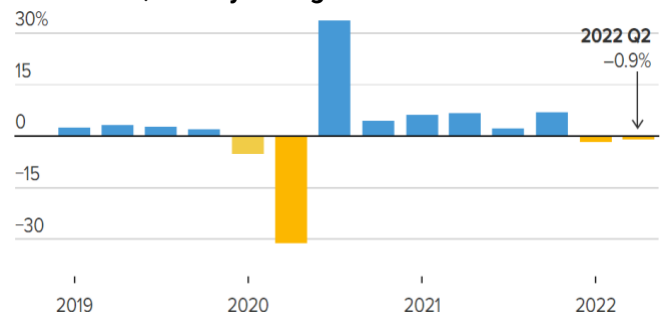
A Potential Powell Pivot?

The Federal Reserve implemented its second consecutive 75 bps interest rate hike at the July FOMC meeting. This came shortly after annualized June CPI (Consumer Price Index) and PPI (Producer Price Index) data was released, both hitting new multi-decade highs. Fed Chairman Jerome Powell indicated that to reduce inflation, economic growth will need to be slowed to a rate below its long run trend, and a softening in the labor market will likely occur. The Fed also expressed that indicators measuring production, housing, consumer spending, and business spending have moderated, suggesting that the economy has started to slow. Moreover, Powell stated, "As the stance of monetary policy tightens further, it likely will become appropriate to slow the pace of increases while we assess how our cumulative policy adjustments are affecting the economy and inflation." Some market participants have interpreted this as a dovish pivot and that future rate increases may be smaller in magnitude or even halted, while others think calmed Fed aggressiveness may be a premature bet.

Is the US in a Recession?

As seen below, US GDP (Gross Domestic Product) has contracted for a second consecutive quarter, bringing the economy in line with an informally agreed upon indication of a recession. However, many economists refute this rule of thumb, and the National Bureau of Economic Research ultimately declares whether or not a recession has occurred.

Exhibit 2: Quarterly Change in US GDP

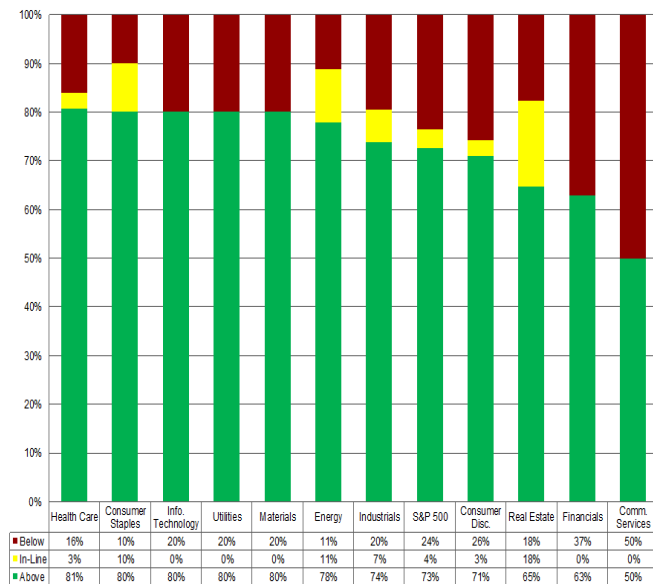


Source: Bureau of Economic Analysis. Data as of July 28, 2022. Note: Seasonally adjusted at annual rates. Chart: Gabriel Cortes / CNBC.

Earnings Update

As of Friday, July 29th, 56% of companies within the S&P 500 have reported Q2 2022 earnings. 73% of these companies have beat their estimates, which falls slightly below the 5-year average of 77%. As a percentage, the Health Care sector leads in companies with reported earnings that exceeded estimates, followed by Consumer Staples and Information Technology (see chart below). Year over year, only six of the eleven sectors have posted positive earnings growth, led by the Energy sector, and followed by Industrials, and Materials sectors. Since the end of Q2 2022, above estimate earnings and upward EPS estimates within the Energy sector have been the bulk contributor to the index's overall earnings increase. Additionally, the index is currently reporting earnings growth of 6%; remaining near this level would mark the weakest increase since Q4 2020. For all of 2022, the S&P 500 is predicted to report earnings growth of 8.9% amid multi-decade high inflation, slowing economic growth, and recession fears.

Exhibit 3: S&P 500 Earnings Above, In-Line, Below Estimates: Q2 2022



Source: FactSet. Data as of July 29, 2022.

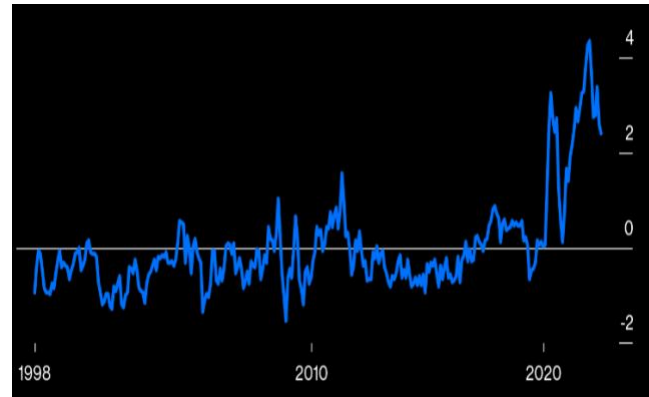
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Change in Supply Chains

According to the Global Supply Chain Pressure Index, which measures supply chain conditions via transportation costs and manufacturing inputs, constraints are starting to ease but pressures remain elevated. Following May's decrease, the index continued to decline in June given a drop in Chinese supply delivery time.

Exhibit 4: Global Supply Chain Pressure Index: Standard Deviations from Average Value



Source: Federal Reserve Bank of New York, Bloomberg Opinion.

Where do we go from here?

Historically, buying US stocks in a recession has proven to be a good risk/reward, as your margin of safety tends to widen, and markets mean revert. Investing is about assigning probabilities, and we think now is an attractive opportunity to nibble on stocks and credit if you are a long-term strategic investor. These opportunities likely won't linger long. You can never be sure we have reached market lows, which is why investors must assign probabilities. We simply think the risk/reward for long-term strategic investors is attractive. We wrote in our last commentary that broadly owning a portfolio of diversified sets of asset classes and owning multiple factors, inflation hedges, and alternatives will be paramount in 2022. We continue to advocate these disciplines.