

Q2 2022

## WEALTH SOLUTIONS CAPITAL MARKETS REVIEW

| INDEX                                   | PERIOD ENDING JUNE 30, 2022 |        |             |             |             |              |
|---|-----------------------------|--------|-------------|-------------|-------------|--------------|
| U.S. Equity Markets                     | Qtr                         | YTD    | 1 Yr Return | 3 Yr Return | 5 Yr Return | 10 Yr Return |
| S&P 500 TR USD                          | -16.10                      | -19.96 | -10.62      | 10.60       | 11.31       | 12.96        |
| Russell 3000 TR USD                     | -16.70                      | -21.10 | -13.87      | 9.77        | 10.60       | 12.57        |
| Russell 3000 Value TR USD               | -12.41                      | -13.15 | -7.46       | 6.82        | 7.01        | 10.39        |
| Russell 3000 Growth TR USD              | -20.83                      | -28.15 | -19.78      | 11.84       | 13.63       | 14.41        |
| Russell 2000 TR USD                     | -17.20                      | -23.43 | -25.20      | 4.21        | 5.17        | 9.35         |
| Russell 1000 TR USD                     | -16.67                      | -20.94 | -13.04      | 10.17       | 11.00       | 12.82        |
| Non-U.S. Equity Markets                 |                             |        |             |             |             |              |
| MSCI ACWI Ex USA NR USD                 | -13.73                      | -18.42 | -19.42      | 1.35        | 2.50        | 4.83         |
| MSCI EM NR USD                          | -11.45                      | -17.63 | -25.28      | 0.57        | 2.18        | 3.06         |
| Fixed Income                            |                             |        |             |             |             |              |
| Bloomberg US Agg Bond TR USD            | -4.69                       | -10.35 | -10.29      | -0.93       | 0.88        | 1.54         |
| Bloomberg US Treasury US TIPS TR USD    | -6.08                       | -8.92  | -5.14       | 3.04        | 3.21        | 1.73         |
| Real Assets/Natural Resources           |                             |        |             |             |             |              |
| DJ US Select REIT TR USD                | -18.10                      | -21.14 | -6.41       | 2.54        | 4.28        | 6.61         |
| S&P North American Natural Resources TR | -10.44                      | 15.87  | 22.17       | 10.47       | 6.77        | 3.39         |

Past performance is not a guarantee of future results.



**GDP (LAGGING  
INDICATOR)**

**Q1 2022 (Third Estimate)**

Decreased at annual  
rate of 1.6%



**EXISTING  
HOME SALES**

**Thru May 31, 2022**

Decreased by 3.4%



**UNEMPLOYMENT  
RATE**

**Thru May 31, 2022**

Remained at 3.6%  
(seasonally adjusted)



**CONSUMER  
PRICE INDEX**

**May 2022**

Increased by 1.0%  
(seasonally adjusted)

## MARKET COMMENTARY

The U.S. equity market ended the second quarter down 16.7%. The decline in stocks was primarily driven by the realization that interest rates will need to be raised higher than previously expected to tame inflation. While higher rates should reduce inflation, it may result in increased borrowing costs and a more difficult environment for businesses looking to expand.

Large-cap stocks outperformed both the mid- and small-cap segments of the market during the quarter. For the year-to-date period, large-cap stocks posted a return of –20.0% outperforming mid- and small-cap stocks by approximately 1.6% and 3.4%, respectively.

Growth stocks lagged value stocks by 8.4 percentage points for the second-consecutive quarter as rising longer-term bond yields continued to have a greater impact on growth stock valuations. Weak relative performance from the technology and consumer discretionary sectors detracted from growth stock performance; favorable relative performance from the utilities and consumer staples sectors were the primary drivers of the market's value segment.

International equities declined 13.7% during the quarter. Emerging market equities outperformed developed market equities for the first time since the end of 2020. China (+3.4%) was the only country with markets that posted a positive return during the period. Prolonged COVID restrictions showed signs of easing which raised the outlook for China's economic growth. However, China's market outperformance did not erase significant negative performance over the past 12 months; China's equities were down approximately 31.8%. Developed equities in Europe posted a –14.5% return in the second quarter driven primarily by concerns over natural gas shortages resulting from the Russia-Ukraine war.

Preliminary estimates from a subset of core equity real estate managers indicates positive returns in the range of 3%–6% for the quarter. Over the last

year, industrial and multi-family properties have performed better than holdings within the office and retail segments – a trend that continued during the period.

The U.S. fixed income market returned –4.7% in the quarter. The Fed increased the target Fed Funds range 0.50% in May and 0.75% in June, ending the quarter at 1.50% to 1.75%. Additional rate increases are expected this year as the Fed attempts to lower inflation. The 10-year treasury yield ended the quarter at 2.98%, representing an increase of 0.66 percentage points during the period. In the year-to-date period, the BB Bond Aggregate index declined by 10.3%, indicating that the market has

“Forecasts may tell you a great deal about the forecaster; they tell you nothing about the future.”

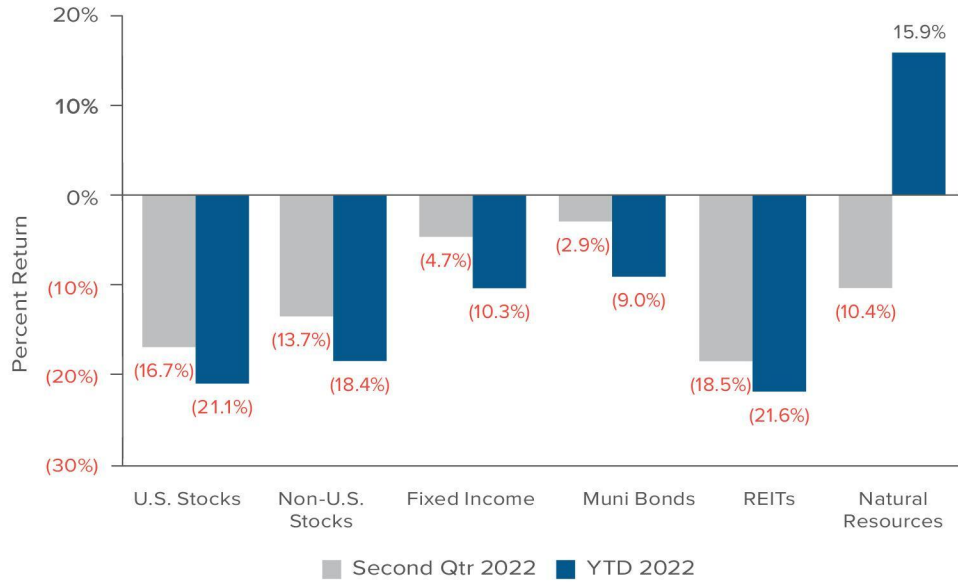
— Warren Buffett

priced in recent rate increases and the anticipated additional increases of 0.75% to 1.00%. During the quarter, investment grade corporate bonds generated a –6.9% return and non-investment grade corporate bonds returned –9.8%. Municipal bonds declined 2.9% as rates rose across the yield curve. Developed non-U.S. government bonds returned –4.6% on a local currency basis but declined by 12.5% for U.S.-based investors due to weakening foreign currencies. Emerging market bonds were down over 11% during the quarter.

TIPS returned –6.1%, underperforming nominal treasuries during the quarter. Fed action caused inflation expectations to decrease as indicated by the break-even inflation rate implied in 10-year U.S. TIPS, which ended the quarter at 2.33% versus 2.84% at the end of the first quarter. The realized annual CPI (inflation) was 8.5% as of May 31, 2022.

## MAJOR CAPITAL MARKET RETURNS

U.S. Stocks—Russell 3000, Non-U.S. Stocks—MSCI AC World ex U.S.,  
Fixed Income—Barclays Aggregate, and U.S. Treasury Bills



## RISK/RETURN – TRAILING 10 YEARS



Source of statistics not otherwise specifically cited within this newsletter: Strategic Capital Investment Advisors.

Definitions of the indexes shown here can be found at <http://mfinwealth.com/index-definitions/>.

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The S&P 500 Total Return is a commonly used measure of common stock performance of 500 leading companies in leading industries of the U.S. economy.

The Russell 3000 index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. It is market-capitalization weighted.

The Russell 3000 Value index measures the performance of the broad value segment of U.S. equity value universe. It includes Russell 3000 index companies with lower price-to-book ratios and lower forecasted growth values. It is market-capitalization weighted.

The Russell 3000 Growth index measures the performance of the broad growth segment of the U.S. equity universe. It includes Russell 3000 index companies with higher price-to-book ratios and higher forecasted growth values. It is market-capitalization weighted.

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity securities. It is a subset of the Russell 3000 index and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

The MSCI ACWI Ex USA Index captures large and mid-cap securities exhibiting overall growth style characteristics across 22 of 23 Developed Market countries. The growth investment style characteristics for index construction are defined using five variables: long-term forward EPS growth rate, short-term forward EPS growth rate, current internal growth rate, long-term historical EPS growth trend, and long-term historical sales per share growth trend.

The MSCI Emerging Markets index measures the performance of the large and mid-cap segments of emerging market equity securities. It is free float-adjusted market-capitalization weighted.

The Barclays Aggregate Bond index measures the performance of investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS.

The Barclays U.S. TIPS index measures the performance of rules-based, market value-weighted inflation-protected securities issued by the U.S. Treasury. It is a subset of the Global Inflation-Linked Index (Series-L).

The DJ U.S. Select REIT index measures the performance of publicly traded real estate investment trusts (REITs) and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI). The index is designed to serve as proxy for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate.

The S&P North American Natural Resources index measures the performance of U.S. traded securities that are classified under the Global Industry Classification Standard (GICS) energy and materials (sector) excluding the chemicals (industry) and steel (sub-industry).

## SOURCES

### GDP

› <https://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm>

### Existing

› <https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales>

### Unemployment

› <https://www.bls.gov/news.release/empstoc.htm>

### Consumer Price Index

› <https://www.bls.gov/news.release/cpi.toc.htm>

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