

# View From the Top

AUGUST 1 2022

Quartz Partners Investment Management's weekly update summarizing key data and highlights from the market week.



## MARKET DATA as of 7/29/22

Index	Level	4 week %	YTD %
S&P 500	4130	9.2	-12.6
Nasdaq Composite	12391	12.4	-20.5
Dow Jones Industrials	32845	6.8	-8.6
Russell 2000	1885	10.4	-15.4
MSCI EAFE	1937	5.0	-15.6
MSCI EMERGING	993	-0.3	-17.8
BarCap US Agg Bond TR		2.4	-8.2
BarCap US High Yield TR		5.9	-9.1

	2.64%	10-year Treasury Yield		2.7%	5 Year Inflation Expectations
	5.30%	30-year Fixed Mortgage Rate		483	High Yield Spread (bps)
	\$98	Oil Price		\$1,762	Gold Price
	\$4.44	Gasoline Price (national)		\$23,804	Bitcoin Price

## QUARTZ PARTNERS P.R.I.C.E. MATRIX: MACRO OUTLOOK

### 1-3 MONTH OUTLOOK

- POLICY
- RISK PERCEPTION
- INFLATION & INTEREST RATES
- CREDIT & LIQUIDITY
- EARNINGS & ECONOMY

	NEGATIVE	NEUTRAL	POSITIVE
POLICY			
RISK PERCEPTION			
INFLATION & INTEREST RATES			
CREDIT & LIQUIDITY			
EARNINGS & ECONOMY			

### P.R.I.C.E. QUICK TAKES

**POLICY:** Fed is intent on raising rates until inflation cracks, with a recession or rising unemployment only catalysts for pausing if inflation does not recede... 75 basis points last meeting although future meetings may be more "live" with smaller hikes; balance sheet reduction plan is in motion; Biden administration has implicitly endorsed the Fed's moves and is contemplating its own tightening via tax policy...**RISK PERCEPTION:** volatility regime continues; tech has exhibited some strength since recession concerns brought down 10yr (tech as duration play); "Crypto Winter" having negative wealth effect impact on speculative stocks ...**INFLATION & INTEREST RATES:** non-US central banks have begun to take action to curb inflation including now the ECB; mortgage rates >5% threatens real estate market; inflation rate remains >9% ...**CREDIT & LIQUIDITY:** high yield spreads have compressed since July on signs of a Fed pivot; potential downgrades a risk on the default side; bank liquidity robust but dark clouds on the horizon if refinancing activity slows...**EARNINGS & ECONOMY:** supply chain issues have begun to ease, yet so may have consumer demand. China lockdowns, still ongoing intermittently, threaten to worsen the situation. Q1 GDP came in at -0.9 and has been negative for 2 consecutive quarters (technical recession?).

**RISK WATCH:** growth concerns on the rise yet inflation remains stubbornly high, chance of an overly hawkish Fed if inflation does not come down with growth. Layoffs on the rise in Tech.

### STYLE RETURNS - 4 WEEK

	Value	Core	Growth
Large	6.6	9.3	12.0
Mid	8.6	9.9	12.2
Small	9.7	10.4	11.2

### STYLE RETURNS - YEAR TO DATE

	Value	Core	Growth
Large	-7.1	-13.6	-19.4
Mid	-9.0	-13.8	-22.6
Small	-9.3	-15.4	-21.6

### FACTOR RETURNS

	4 week %	YTD %
MOMENTUM	5.1	-20.3
SIZE	10.4	-15.4
LOW VOL	5.1	-8.4
DIVIDEND	3.7	-5.8
QUALITY	8.7	-17.1

## TALKING POINTS

The stock market surged higher last week, with the S&P 500 jumping 4.3% and the Nasdaq Composite Index climbing by 4.7%. Small cap stocks rose in line with the broad stock market, with the Russell 2000 Index up 4.3% for the week ending July 29. The Energy (+10.3%) and Utilities (6.5%) sectors saw the biggest gains, while defensive plays Consumer Staples (+1.6%) and Health Care (+2.0%) finished the week with the smallest gains. Treasury yields continue to fall on the potential for a Fed pivot, with the 10-year benchmark yield falling to 2.64% from 2.78%. High yield bond spreads compressed even with the strong bid from Treasuries, falling to 483bps from 496bps.

The Federal Reserve raised interest rates by another 75 basis points to 2.25-2.5% on Wednesday, citing low unemployment and still rampant inflation, based on readings leading up to the two-day meeting. Stocks rallied sharply despite the hawkish policy

action, largely based on (1) softening economic and, in some areas, price data, and (2) subtle signs that the FOMC will be more flexible at future meetings. Chair Powell had this to say at the post-meeting press conference: "While another unusually large increase could be appropriate at our next meeting, that is a decision that will depend on the data... The labor market is extremely tight, and inflation is much too high." While not exceedingly dovish on its own, recent data suggest that more measured hikes in the near-term, and an all-out pause in the tightening cycle, could be approaching. The data that lends itself to this argument include:

**Q2 GDP (-0.9%):** US Real GDP has now fallen for two consecutive quarters after declining 1.6% in Q1. Two straight negative GDP readings is considered by some economists as a technical recession, although Washington insists that is not the case. The "is it a recession or not?" debate has raged in recent weeks.

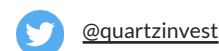
The NBER, a private organization dedicated to tracking business cycles, uses a range of measures including employment, personal income and expenditures, and production. Using measures beyond GDP allows for a rationalization that a recession has not yet arrived. Regardless, overall inflation-adjusted economic activity has inarguably turned lower this year and the Fed now runs the risk of going too far, too fast if recent trends continue.

**Ex-labor market data is softening:** University of Michigan's consumer sentiment index has fallen sharply this year, with consumers struggling to afford basic goods and services. The same can be said for retail sales, with big-box retailers expressing concerns about inventory gluts. The housing market has also begun to buckle under the pressures of low supply and high mortgage rates – the latest reading on new home sales showed a 17.4% decline since last year.

## THE WEEK AHEAD

US ISM (Mon) • US ISM Services PMI (Wed) • US Jobs Report (Fri)

See next page for index descriptions and important disclosures. Although certain information has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness. This material is provided for educational purposes only and should not be construed as investment advice or an offer or solicitation to buy or sell securities. Past Performance is not a guarantee of future results.



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Stock and bond values fluctuate in price so that the value of an investment can go down depending on market conditions. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

Data Source: Morningstar, Federal Reserve, coindesk, US Energy Information Administration, Yardeni Research (sector performance).

5-year inflation expectations are calculated as the yield difference between US Treasury Securities and Treasury Inflation-Protected Securities (TIPS) of the same maturity. High Yield Spreads are based on the ICE BofAML US High Yield Bond Index.

#### BENCHMARK INFORMATION

Large Value: Russell 1000 Value TR USD  
 Large Blend: Russell 1000 TR USD  
 Large Growth: Russell 1000 Growth TR USD  
 Mid Value: Russell Mid Cap Value TR USD  
 Mid Blend: Russell Mid Cap TR USD  
 Mid Growth: Russell Mid Cap Growth TR USD  
 Small Value: Russell 2000 Value TR USD  
 Small Blend / Size: Russell 2000 TR USD  
 Small Growth: Russell 2000 Growth TR USD  
 Momentum: MSCI USA Momentum NR USD  
 Quality: MSCI USA Quality NR USD  
 Dividend: MSCI USA High Dividend Yield NR USD  
 Low Volatility: MSCI USA Minimum Volatility (USD) NR USD

#### BENCHMARK DEFINITIONS

BBgBarc US Agg Bond TR USD: This index is comprised of approximately 6,000 publicly traded bonds including U.S. Government, mortgage-backed, corporate, and Yankee bonds with an approximate average maturity of 10 years.

BBgBarc US Corporate High Yield TR USD: Includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of \$100 million, and at least one year to maturity.

DJ Industrial Average TR USD: Computed by summing the prices of the stocks of 30 companies and then dividing that total by a split-adjusted value.

MSCI EAFE NR USD: This Europe, Australasia, and Far East index is a market-capitalization-weighted index of 21 non-U.S., industrialized country indexes.

MSCI EM NR USD: captures large and mid cap representation across 27 Emerging Markets (EM) countries\*. With 1,397 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

MSCI USA High Dividend Yield NR USD: The index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.

MSCI USA Minimum Volatility (USD) NR USD: composed of U.S. equities that, in the aggregate, have lower volatility characteristics relative to the broader U.S. equity market.

MSCI USA Momentum NR USD: measures the performance of U.S. large- and mid-capitalization stocks exhibiting relatively higher momentum characteristics.

MSCI USA Quality NR USD: The index aims to capture the performance of quality growth stocks by identifying stocks with high quality scores based on three main fundamental variables: high return on equity (ROE), stable year-over-year earnings growth and low financial leverage.

NASDAQ Composite TR USD: The Nasdaq Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the Nasdaq stock exchange.

Russell 1000 Growth TR USD: Tracks the companies within the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 TR USD: Consists of the 1000 largest companies within the Russell 3000 index, which represents approximately 98% of the investable US equity market. Also known as the Market-Oriented Index, because it represents the group of stocks from which most active money managers choose.

Russell 1000 Value TR USD: Tracks the companies within the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth TR USD: Tracks the companies within the Russell 2000 Index that have higher price-to-book ratios and higher forecasted growth values.

Russell 2000 TR USD: Consists of the 2000 smallest companies in the Russell 3000 Index.

Russell 2000 Value TR USD: Tracks the companies within the Russell 2000 Index that have lower price-to-book ratios and lower forecasted growth values.

Russell Mid Cap Growth TR USD: Tracks the companies within the Russell Midcap Index with higher price-to-book ratios and higher forecasted growth values.

Russell Mid Cap TR USD: Measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell Mid Cap Value TR USD: Tracks the companies within the Russell Midcap Index having lower price-to-book ratios and lower forecasted growth values.

S&P 500 TR USD: A market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the US; it's often used as a proxy for the U.S. stock market. TR (Total Return) indexes include daily reinvestment of dividends.

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