CETERA® INVESTMENT MANAGEMENT

COMMENTARY

July 14, 2022

Earnings Season + Inflation Data + Fed Speak = Market Volatility

- Second quarter earnings season is picking up.
- Two red hot inflation reports have investors focused on the Federal Reserve (FED).
- Factors driving market volatility are not going away soon.

Investors have had a lot to digest recently, and this is evident in the recent stock and bond market swings. Intraday market swings have been large as investors get new earnings reports, economic data, and comments from Fed officials.

Earnings season is upon us, and more companies began releasing second-quarter earnings results and offering future earnings guidance. We expect more companies to miss revenue and/or earnings projections and taper future expectations as we move through the earnings season. While this is largely priced into markets already, the headlines from these investor calls will continue to cause angst in markets.

Two new inflation readings were also released, and both came in higher than expected. First, we got a report on the Consumer Price Index (CPI) for June that showed inflation was 9.1% higher than last year. This was an increase from May's reading and squashed the idea that we have already seen peak inflation. It was also the highest reading since November of 1981. The next day we got another report on producer prices confirming inflation is indeed hot. Input costs for companies grew at a year-over-year rate of 11.3%. The hot inflation data naturally shifts attention to the Fed.

The Fed is responsible for keeping inflation in check. They can do this by raising interest rates which increases borrowing costs, which in turn slows the economy and demand for goods and services. The fear is that the Fed will be forced to raise interest rates too much and too fast and hurt the economy to the point it will cause a recession. The idea of a soft-landing, where the Fed can raise rates slowly and to a level that would kill inflation and yet not cause a recession, is fading. The new inflation readings sent probabilities for a 1% July rate hike soaring and stock markets adjusted accordingly. So, when Federal Reserve Governor Christopher Waller said he was also disappointed with the data but was still in favor of a 0.75% hike in the July 26 meeting, stock markets again adjusted their expectations. This was a clear example of markets reacting to the constant news flow and uncertainty.

Unfortunately, these chains of events will continue, and investors will continue to account for them. Market volatility will remain elevated while new information comes to light. The good news is that much of the bad news is perhaps accounted for in stock prices, which have largely fallen well off their peaks. If we do enter a recession, it could be mild because the labor market is very strong. People tend to spend money if they have a job and do not fear losing it. Additionally, household and corporate balance sheets have strong fundamentals and inflation may be peaking soon. Negative sentiment is high, which can be a bullish predictor as it creates more opportunities for upside surprises.

It is important to have an investment allocation that is aligned with your risk tolerance, and we advise that you work closely with your Cetera financial professional for guidance through these volatile times.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

About Cetera® Investment Management
Cetera Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Cetera Investment Management provides market perspectives, portfolio guidance, model management, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

About Cetera Financial Group
"Cetera Financial Group" refers to the network of independent retail firms encompassing, among others, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Investment Services LLC (marketed as Cetera Financial Institutions or Cetera Investors), Cetera Financial Specialists LLC, and First Allied Securities, Inc. All firms are members FINRA / SIPC. Located at 655 W. Broadway, 11th Floor, San Diego, CA 92101.

Disclosures
Individuals affiliated with Cetera firms are either Registered Representatives who offer only brokerage services and receive transaction-based compensation (commissions), Investment Adviser Representatives who offer only investment advisory services and receive fees based on assets, or both Registered Representatives and Investment Adviser Representatives, who can offer both types of services.

The material contained in this document was authored by and is the property of Cetera Investment Management LLC. Cetera Investment Management provides investment management and advisory services to a number of programs sponsored by affiliated and non-affiliated registered investment advisers. Your registered representative or investment adviser representative is not registered with Cetera Investment Management and did not take part in the creation of this material. He or she may not be able to offer Cetera Investment Management portfolio management services.

Nothing in this presentation should be construed as offering or disseminating specific investment, tax, or legal advice to any individual without the benefit of direct and specific consultation with an investment adviser representative authorized to offer Cetera Investment Management services. Information contained herein shall not constitute an offer or a solicitation of any services. Past performance is not a guarantee of future results.

For more information about Cetera Investment Management, please reference the Cetera Investment Management LLC Form ADV disclosure brochure and the disclosure brochure for the registered investment adviser your adviser is registered with. Please consult with your adviser for his or her specific firm registrations and programs available.

No independent analysis has been performed and the material should not be construed as investment advice. Investment decisions should not be based on this material since the information contained here is a singular update, and prudent investment decisions require the analysis of a much broader collection of facts and context. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. The opinions expressed are as of the date published and may change without notice. Any forward-looking statements are based on assumptions, may not materialize, and are subject to revision.

All economic and performance information is historical and not indicative of future results. The market indices discussed are not actively managed. Investors cannot directly invest in unmanaged indices. Please consult your financial advisor for more information.

Additional risks are associated with international investing, such as currency fluctuations, political and economic instability, and differences in accounting standards.

A diversified portfolio does not assure a profit or protect against loss in a declining market.