Gore Capital Management

Our only client is you.

We're going to keep our newsletter short this quarter. Instead of offering up the usual few pages of exposition, you'll find a very brief update on the economy and markets followed by links to two articles of interest (one selected by Peter and one by Ben). We figure incorporating perspectives other than just our own may be refreshing and hopefully make for good summer beach fodder!

Earnings season is coming to a close with ~90% of companies reporting results. 70% of those companies reported better earnings than expected with aggregate earnings growth of just under 7% year-over-year. While that figure is not as strong as some of the rates we've seen post-COVID, it's still a strong figure. Importantly, revenues are growing too, meaning companies are making more money and not just engaging in some creative "financial engineering" to make their results look better than they actually are. The market's reaction to the good earnings season has been positive, too. Since the close of the quarter on June 30th, the S&P 500 has regained about 450 points (an increase of roughly 12%). There are still a few weeks before Labor Day (the unofficial start of fall), but the old Wall Street saw about selling in May and going away may not prove to be good advice this year. (Factset)

The Bureau of Economic Analysis released revised 2nd quarter GDP last month, noting a decline in economic growth of 0.6% year-over-year. This follows a decline in the 1st quarter of 1.6%, marking two consecutive quarters of economic contraction (BEA). Two quarters of economic contraction has long been the working definition of a "recession," but the government seems hesitant to acknowledge that we may very well be experiencing a recession today. Gee… wonder why… Quite frankly, it doesn't really matter what we call it. Slowdown, recession, pit stop, naptime. The fact of the matter is that the economy, as a whole, is not as strong as it was last year.

Importantly, the consumer appears to still be in good shape. Employment is strong, consumer spending remains solid, and anyone who has been in an airport, hotel, or vacation destination, as you may be right now, can attest that everything is packed. Inflation may also be starting to plateau, with July's CPI reading flat versus June's. One data point does not make a trend, but it was encouraging to see at least one month where inflation didn't increase yet again. Going forward, we believe oil prices are likely to dictate the trajectory of inflation because it permeates so many facets of our economy. If oil prices can stabilize or even decline a little, we believe headline inflation figures will follow.

The November election race is starting to find its way into the headlines. FiveThirtyEight's poll data suggests Democrats are likely to win a majority in the Senate while Republicans win the House, but we all know surprises are likely to shake things up. As we've said before, the market tends to like a purple makeup in Washington because it means a low probability of either party passing extreme legislation.

With midterm elections around the corner, a war still raging in Ukraine, and a murky picture of US economic health, the market is likely to remain volatile for the foreseeable future. What happens tomorrow, next month, or even next year, is unclear. However, our focus remains squarely on the long-term. Bear markets are painful, but normal; since 1928 there has been a bear market, on average, once every 5 years (Motley Fool). The average market decline during a moderate recession has been 24%, with recovery to new all-time highs taking between 2-3 years (Raymond James). Investors who can stick to their strategy through these challenging environments have historically been rewarded on the other side.

Ben's pick: Scarcity is an Ally of Appreciation

Peter's pick: Forbes—What is a Recession?

Bonus video: Which Way Now? A Conversation with Howard Marks

Market Statistics	July '22	YTD	2021	3-Year Annl.	5-Year Annl.
S&P 500	9.22%	-12.58%	28.16%	13.36%	12.83%
Dow Jones Ind. Avg.	11.13%	-13.16%	20.28%	8.65	9.79
Russell 2000 (Small Cap)	10.42%	-15.61%	14.49%	7.13%	6.72%
MSCI EAFE (Foreign)	4.98%	-15.56%	11.26%	3.16%	2.61%
MSCI ACWI (Global)	6.98%	-14.61%	18.54%	8.52%	9.35%
MSCI Emerg. Mkts. Equity	-0.25%	-17.83%	-2.54%	0.90%	0.95%
Barclay's Aggregate Bond	2.44%	-8.16%	-1.54%	-0.21%	1.28%
iShares Gold ETF (GLD)	-2.59%	-4.01%	-3.51%	7.20%	6.33%

Source: Morningstar, as of 7/31/22

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