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## Grey Ledge Advisors Mid-Year Market Commentary

Financial markets around the world closed out the first half of the year with the weakest investment performance witnessed in decades. The combination of rising interest rates and persistently high inflation has been a sharp turn- around from record low interest rates and mild inflation present just over two years ago when Covid 19 first set in. In retrospect, the massive amount of liquidity the Federal Reserve injected into the economy post Covid stoked demand in an environment where supply chains were becoming disrupted. Companies and factories were struggling to keep up with demand, and in many cases continue to do so. The US stock market, as measured by the S&P 500 index, is down 21% through June 30. Normally, when stocks sink to such a degree, fixed income investments (high quality bonds) come to the rescue and provide ballast to diversified portfolios. Such is not the case this year as high quality, intermediate term bonds (those maturing in five to ten years) are down 11%.

The Federal Reserve's quest to tame inflation via short term interest rate increases has contributed to the double digit decline in bond prices. There have been few places to hide. Looking ahead to the second half of the year we can expect more volatility as the tug of war between inflation, interest rates and economic growth plays out. The Federal Reserve will play an important role in the back half of the year as commentary from the Fed has become more hawkish regarding fighting inflation. Fed Chairman Jay Powell has recently altered the Fed's script from "inflation is likely transitory", to "we would like to lower inflation without creating an economic recession and higher unemployment" to "we need to get inflation under control".

Grey Ledge Advisor's rigorous investment approach and bias toward high quality stocks and bonds acts to provide a buffer when conditions are challenging. The stock market decline year-to-date has affected just about every sector of the market. Many stocks in the technology area have been decimated with declines in value of 50% to 80%. Many of these companies came public in the past few years and soared in price mainly based on speculation and the massive amount of liquidity created by the Federal Reserve that was looking for a home. Grey Ledge largely avoided these investments, preferring to rely on proven companies having long track records, consistent earnings streams, and high levels of profitability. As in past economic and market cycles over the decades, high quality investments transcend the near- term challenges and come out the other side intact, increasing earnings and paying cash dividends as they have for decades. We expect this to be the case again in the cycle.

Please reach out to your advisor or any of the staff here at Grey Ledge Advisors should you like to have further discussion regarding your portfolio(s).

- Brant Walker, Chief Investment Strategist