Uncertainty Reigns and Financial Markets Struggle

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Stocks continue to sell-off as discouraged investors retreat to the sidelines. The big-chip DOW and the broad-market S&P500 both reached their lowest levels in nearly two years on Tuesday, before staging a gallant rebound yesterday and resuming the fall today. Unfortunately fleeing equity investors have not exactly piled into fixed income securities as the bond market itself is on pace for the worst annual performance in generations. Back in May, the Wall Street Journal proclaimed it "the worst bond market since 1842"…and it's only gotten worse. According to Forbes, in 45 years of the Bloomberg US Aggregate Index history, bonds have fallen in value on an annual basis just five times, with the most significant drop being 2.9% in 1994. So far In 2022, the index is down over 11%.

The longer the maturity, the worse the impact. The 3-year and 5-year Treasury-notes have lost roughly 10% to 11% in 2022, the 10-year about 22%, and a 30-year Treasury-bond, purchased a year ago, has shed an astonishing 33% of its market value. It isn't just the magnitude, it's the speed of the decline. In early 2021, there were concerns that short Treasury yields could dip into negative territory, and in March 2022 the lower band of the overnight funds target was still anchored at 0.00%. Six months later, the Fed has not only increased the overnight target by 300 basis points, but has indicated it will likely hike another 125 before the year ends.

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The extreme aggressiveness of recent Fed policy has contributed to the strongest dollar in twenty years, forcing other central banks to follow suit. Rate increases this month by the Bank of Canada, the European Central Bank (ECB) and the Bank of England (BOE) were all in record increments. Yesterday, the BOE announced it would launch unlimited bond buying to bolster its' currency, an unfortunate effort that runs counter to its efforts to cool the highest inflation rate in more than 40 years. The surprising action by the BOE was partially in response to last week's surprise announcement by Prime Minister Liz Truss of a massive £45 billion tax cut intended to offset the economic pain felt by British citizens. The ill-advised plan drew the attention of the International Monetary Fund (IMF), who urged the U.K. government to reconsider the "inappropriate" action, warning of "permanent damage to the public finances" which could pose "insurmountable challenges to the central bank."

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This all highlights how difficult it's been for nations to strike a balance between cratering economic growth and overheating prices. There isn't a reliable map pointing the way out. And as market participants witness policy-makers struggle, it's hard to buy into the idea that the lost will be found. Confidence has taken a hit. In the simplest of terms, as long as sellers outnumber willing buyers, market prices will fall.

Market Indications as of 2:53 P.M. Central Time

DOW	Down -459 to 29,225 (HIGH: 36,800)
NASDAQ	Down -335 to 10,716 (HIGH: 16,057)
S&P 500	Down -93 to 3,627 (HIGH: 4,797)
1-Yr T-bill	current yield 3.94%; opening yield 3.94%
2-Yr T-note	current yield 4.17%; opening yield 4.14%
3-Yr T-note	current yield 4.19%; opening yield 4.18%
5-Yr T-note	current yield 3.99%; opening yield 3.97%
10-Yr T-note	current yield 3.76%; opening yield 3.75%
30-Yr T-bond	current yield 3.71%; opening yield 3.70%

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