

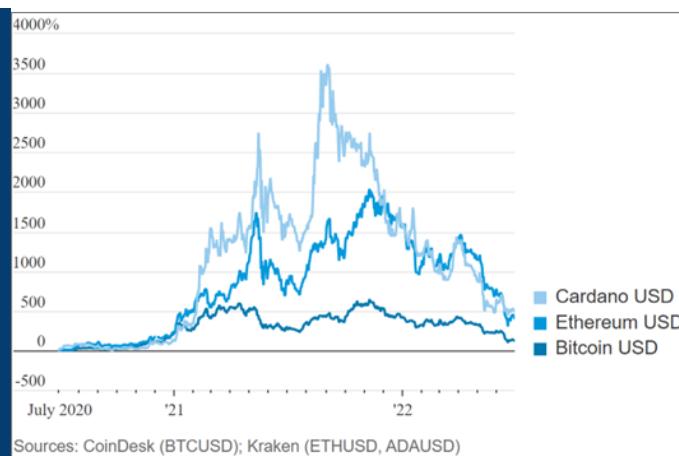


# Market Musings

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**The price history of various cryptocurrencies reflected shows the speculative nature of these assets. Explosive upside price moves, endorsements by well-to-do professionals have been followed by unexpected price collapses. History repeats itself and this is one example of how a speculative bubble is formed and then bursts.**



## Crypto Calamity

The ongoing bear market in stocks and bonds accelerated in June with declines that rival the market decline going all the way back to 1970! Inflation has been labeled the culprit in this decline, but the latest news indicates that inflation, at least core inflation that excludes food and energy, seems to have peaked. If this is the case, what could be the cause of this accelerating decline?

The financial market decline is being outpaced by the accelerating decline in the crypto market that could be the factor forcing the stock market lower while tight Fed policy is negatively affecting the bond market. As the second quarter came to an end, general economic activity continued to advance albeit it at a slower pace. Consumer confidence continued to weaken but that might be because of the weak financial markets. Higher interest rates are starting to discourage homebuyers, but record airline traffic data suggests that consumers are spending their pandemic savings. Corporate earnings for most companies are on track for another good year so the blue-chip crowd should be okay once the selling is over.

The crypto market appears to be imploding as various “coins” are collapsing in price and borrowing to finance crypto markets is at risk. As these related entities enter the crisis phase, many of these companies are forced to liquidate other securities to meet “margin” calls. These sales force stock prices lower and continued declines keep downward pressure on stocks. A similar circumstance that caused the 2008 financial market collapse was the leveraging of mortgage-backed securities. Well-known brokerage firms found themselves holding these securities as they collapsed in price. Not until the Federal Reserve stepped in and began purchasing these securities did the financial market sell-off end.

This time around may be a little testy as the Fed is not likely to bail out crypto currencies as it is trying to steer the economy to a lower inflation level. On the other hand, if there are banks involved in lending to the crypto-related firms, there may be some more negative action forthcoming. In any event, these crypto related failures will bring in the regulators to evaluate the impact of these entities on individual investors and likely result in the introduction of policies and procedures for the crypto industry.

***"In times of adversity and change, we really discover who we are and what we're made of."***

*Howard Schultz*

## Market Commentary

After three consecutive years of double-digit gains, the stock market is suffering a bruising first half with large, mid, and small-cap stocks in the S&P indices down about 20%. The S&P 500 had the worst first half in five decades! Foreign and emerging markets stocks are down 19.7% and 18.8%, respectively, for the same period. Even bonds are down double-digits year-to-date. Stock prices around the world have been hurt by factors that appear in nearly every business cycle, rising interest rates and slowing growth. The rapid return of inflation, a wobbling Chinese economy and a war in Ukraine have also weighed on stocks. Even gold is down so far this year, which seems abnormal given the high inflationary environment. One silver lining: A bad first half does not guarantee a bad second half. In 1970 the S&P 500 fell 21% in the first half and then gained 27% in the second half, ending the year roughly flat.

**The price of West Texas Intermediate (WTI) crude oil closed at \$37.96 a barrel on 6/17/2020 (i.e., 2 years ago). The price of WTI crude oil closed at \$109.56 a barrel on 6/17/2022. The record closing high for WTI crude oil is \$147.27 a barrel set on 7/11/2008.**

(source: NYMEX)