OceanFirst Bank

Trust and Asset Management Market Outlook

Summer 2022

Market Update

(all values as of 07.29.2022)

Stock Indices:

Dow Jones	32,845
S&P 500	4,130
Nasdaq	12,390

Bond Sector Yields:

2 Yr Treasury	2.89%
10 Yr Treasury	2.67%
10 Yr Municipal	2.27%
High Yield	7.50%

YTD Market Returns:

Dow Jones	-9.61%
S&P 500	-13.34%
Nasdaq	-20.80%
MSCI-EAFE	-17.07%
MSCI-Europe	-18.52%
MSCI-Pacific	-14.20%
MSCI-Emg Mkt	-19.34%
US Agg Bond	-8.16%
US Corp Bond	-11.61%
US Gov't Bond	-9.13%

Commodity Prices:

Gold	1,782
Silver	20.32
Oil (WTI)	98.35

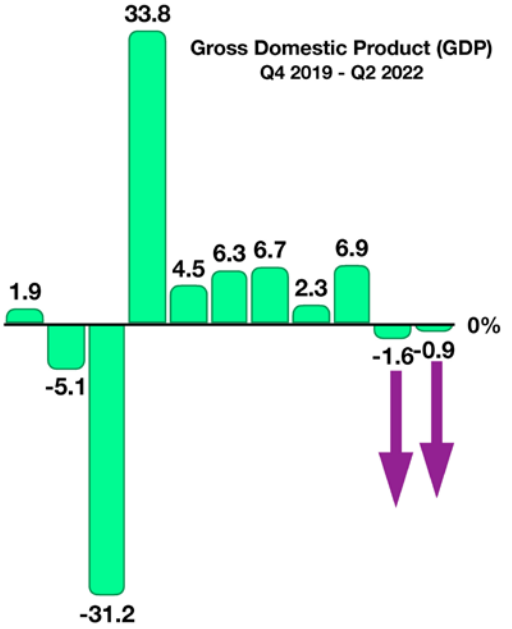
Currencies:

Dollar / Euro	1.01
Dollar / Pound	1.21
Yen / Dollar	135.01
Dollar / Canadian	0.77

Macro Overview

Recession concerns are rising as company earnings, employment data, and economic growth estimates continue to demonstrate an expected slowdown in the economy. Second quarter Gross Domestic Product (GDP) released in July showed a -0.9% decrease in GDP, following a1.4% decline in the first quarter of the year. Traditional economic credence views two consecutive quarters of negative GDP as constituting a recession.

Markets were anxious in July as company earnings revealed uncertainty surrounding inflation and true economic conditions. Higher operating expenses hindered profit margins for many companies, yet allowed other companies to maintain margins as they continued to pass along elevated costs to consumers in the form of higher prices.



Inflation data showed that overall prices rose 9.1% in the past year, the fastest rise since 1981. Economists believe that the data is being muddled by record-level gasoline and food prices. With fuel prices having eased somewhat in July, upcoming inflation numbers may start to signal a pullback in inflationary pressures as we approach the fall.

The European Central Bank (ECB), the equivalent of the Federal Reserve, increased rates in July in order to help stifle rising inflationary pressures throughout Europe. Consumers in Europe are experiencing little if no respite from rapidly rising prices due to the Russian invasion of Ukraine.
The euro reached parity with the U.S. dollar in July for the first time in twenty years. The equal valuation of the two currencies has made it less costly for Americans buying European products and for those traveling to Europe.
Longer-term bond yields fell in July, even as the Fed increased short-term rates. Longer-term interest rates are essentially dictated by the markets, whereas short-term rates are set by the Federal Reserve. When short-term rates are higher than long-term rates, economists view this dynamic as indicative of slowing economic growth in the future.

The Federal Reserve imposed its second 0.75% rate increase this year, which acts as a tool for the Fed to combat inflation. Analysts have a growing consensus that the Fed may eventually pause or even reduce rates should the economy start to falter.

Sources: U.S. Bureau of Economic Analysis, ECB, Federal Reserve, U.S. Treasury

NOT SINCE 2002 HAS THE EURO BEEN VALUED EQUALLY WITH THE U.S. DOLLAR

Bond Yields Fluctuate As Fed Hikes Rates – Fixed Income Overview

Overall bond yields fell in July, as uncertainty surrounding the economic environment was more concerning than inflationary pressures. The yield on the 10-year Treasury bond fell to 2.67% in July, down from 2.98% in June. Analysts expect the Fed to eventually halt rate increases and even reduce rates should economic conditions worsen, leading to lower rates.

Mortgage rates eased with the average 30-year conforming rate falling below 5.5%, a slight buffer to the rapidly rising loan rates from the beginning of the year.

(Sources: FreddieMac; U.S.Treasury)

Equity Indices Mover Higher In July – Domestic Equity Overview

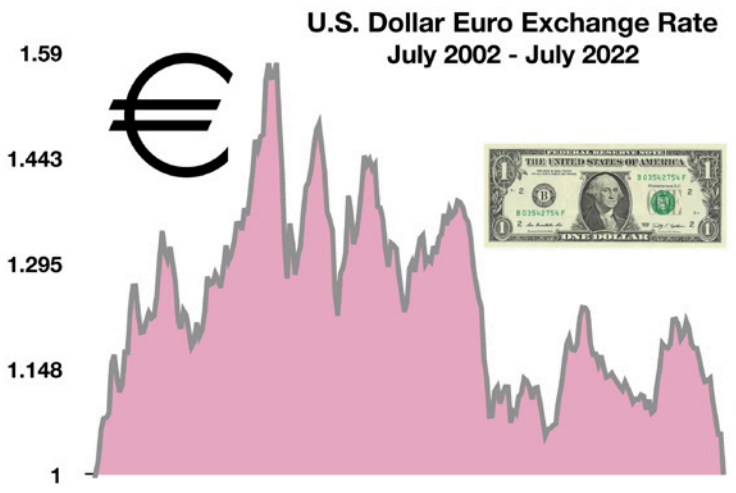
Stock earnings have become indirect indicators of where the economy may be headed. Companies that have thus far released earnings for the 2nd quarter are revealing slowing growth trends and heightened expenses hindering profitability. Various companies have announced pullbacks in job hiring, wage freezes, and layoffs in order to maintain margins.

Major equity indices were resilient in July, with the Dow Jones Industrial Average, the S&P 500, and the Nasdaq all posting positive trends for the month. Volatility was subdued as inflation fears eased, yet expectations of a recession still remained faint.

(Sources: Bloomberg; Reuters, Dow Jones; S&P, Nasdaq)

Euro Hits Parity With U.S. Dollar – Currency Dynamics

Not since 2002 has the euro been valued equally with the U.S. Dollar. This equal valuation is known as parity in the currency markets. Since a peak of one euro equaling 1.23 dollars in December of 2020, the euro has seen a decline that has led to this parity, due to a handful of reasons.



The Russian invasion of Ukraine has led to tremendous financial consequences throughout Europe, as the devalued euro has exasperated inflationary pressures for Europeans as well as derailed financial markets throughout the region. Conversely, U.S. consumers have benefited from a weakened Euro, making European products and travel less expensive for Americans. The discrepancy between the costs of goods in euros versus dollars is already high, and many European-based companies may sell goods that cost far less to buy in euros than they would in dollars. This past month, a trip to Europe as well as European imports has become less costly for Americans than it was even six months ago.
(Sources: https://fred.stlouisfed.org/series)

Household Wealth Skewed Towards Homes – Consumer Housing Sentiment

Household wealth data released by the Federal Reserve showed that U.S. household net worth climbed to over $149 trillion in the first quarter of 2022. The two biggest components of household wealth are home equity and retirement accounts.

Since homes make up a significant portion of consumer balance sheets, any devaluation can directly affect consumer confidence. If consumers realize that they have become less wealthy, then they may spend less. What essentially drives a devaluation in asset prices including homes, cars, stocks, and art is a broad slowdown in economic activity and consumer expenditures. A host of factors contribute to these dynamics.

So, for the middle-class, homes have become exponentially more important. Currently, owners' equity in their real estate as a percentage of household real estate is around 70%, the highest it has been since 1986. For context, this percentage is also up from a low of around 46% in the 2009 housing crisis. Finally, to put it in an even more historical lens, homeowners maintained around this percentage of their real estate from the late 60s to the late 90s, where it was far higher in the 40s and 50s due to cheap housing prices and accessibility to housing due to the GI Bill, and then began to decline in the 90s.

(Source: Federal Reserve; Federal Reserve Bank of St. Louis)

What Is ESG – Socially Conscience Awareness – Part 2 of a 3 Part Series

Understanding the dynamics behind Environmental, Social, and Governance (ESG) can be complex at times, as guidelines and parameters evolve throughout the industry. As a recent form of identifying and recognizing companies based on specific characteristics, ESG is becoming broadly accepted as its understanding takes hold. ESG is considered a financial philosophy where investors inspect these nontraditional aspects of companies, in addition to traditional formats of analyzing companies.

ESG considers the environmental side of a company, evaluating the effects the company at hand has on-the natural environment around it. For example, one may consider the company's role in climate change, deforestation, energy efficiency, or waste. With a rise and the expectation of continuing "green" legislation around the world, many companies are adhering to environmentally friendly solutions in order to comply with ESG.

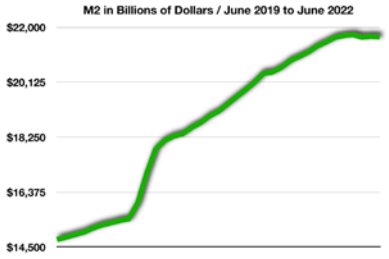
The ESG strategy will also consider the social aspects of the company, which encapsulate the company's treatment of customers, employees, and the communities in which they reside. To effectively evaluate these aspects, one can look through how the company ranks in regard to work-life balance, high customer satisfaction, high labor standards, and customer service.

(Source: Staff Editorial)

M2 HAS RISEN BY $6.3 TRILLION SINCE THE START OF 2020

Rapid Growth Of The Money Supply Has Fostered Inflation – Economic Overview

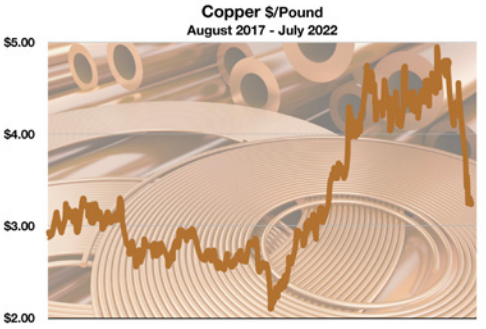
Since the start of the COVID-19 Pandemic, the U.S. money supply has grown at an above-average rate. M2, which measures the supply of U.S currency in circulation, is important to analyze why there has been a jump in the money supply. Economists view an increase in the money supply as an indication of rising inflation and conversely an indicator of deflation when M2 decreases. M2 includes M1, which is currency held by the public, checkable deposits, and travelers' checks, plus savings deposits and shares in money market mutual funds. M2 has risen by $6.3 trillion since the start of 2020 of which $4.8 trillion has come directly from the Federal Reserve and a net $1.5 trillion has come from banks. M2 has increased an astounding 41% in only 2½ years, meaning an average annual growth rate of 16.3%. In fact, in 2020-2021, the growth rate of U.S. currency jumped a historical 26%, which is the largest jump in the money supply since 1943. To put that into perspective, M2 grew, on average, around 5% between 2010 and 2019. Since this historic jump, the M2 growth rate has been severely constrained, with a swift 20% drop in growth. From its 2020-2021 peak of around 26%, it has fallen to 6% as of April 2022. In its strategy to raise rates and begin quantitative tightening, the Fed has, in the three months before June, allowed M2 growth to plunge to an anemic annualized growth rate of 0.1%. When broad money supply growth falls, then spending contracts which historically has led to recessionary environments.



(Sources: Federal Reserve Bank of St. Louis; Board of Governors of the Federal Reserve System (US); M2 [M2SL] Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/M2SL, July 28, 2022.)

Copper Down On Possible Global Economic Slowdown – Global Economy Review

Copper is amongst the most actively traded commodities worldwide, and is a vital piece of global economic growth. It is a crucial commodity in major industries like construction, power generation & transmission, transportation, and technology. Copper's price per pound as of July 11th reached a low of $3.23, down from its historic high of $4.94 in late February of this year, which is a drop of around 34%. Copper is a signal of the worldwide economic status, with copper's current fall being indicative of a global economic slowdown. As European economies are in a clear decline with Russia limiting its suppliance of national resources, gas shortages have caused additional slashes in copper's price. Copper is extremely useful, especiallyin the fast-expanding electric and environmentally sensitive markets, yet shortages of energy and natural resources have extended its fall.



(Sources: Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCOPPUSDM)

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BRANDON KALETKOWSKI
SOUTHERN NJ / PHILADELPHIA
bkaletko@oceanfirst.com
1.888.623.2633 x7977

CATHY FARLEY
CENTRAL NJ/NEW YORK
cfarley@oceanfirst.com
1.888.623.2633 x7972