Weekly Market Commentary
October 3, 2022

The Markets

The third quarter marked a change in attitude.

So far, 2022 has been a tough year for investing. We've experienced an unusual phenomenon – the simultaneous decline of stock and bond markets. Throughout the third quarter, investors' concerns focused on global instability, rising prices and the possibility that central bank efforts to tame inflation would cause economic growth to falter. The result has been tremendous volatility in stock and bond markets.

Early in the third quarter, U.S. stock markets gained ground as investors latched onto the idea that inflation had peaked, and the Federal Reserve would soon moderate the pace of rate hikes. Following the release of July's Consumer Price Index (CPI), Carleton English of *Barron's* reported:

"Wall Street got a dose of good news this week. It also got a little ahead of itself. Inflation slowed in July, according to Department of Labor data released on Wednesday…It makes sense that investors would celebrate the easing of prices. But it may be too early to pop the Champagne – inflation standing at 8.5% is still a long way from the Federal Reserve's target of 2%, and the Fed is likely to continue tightening until it is under control."

U.S. stock markets trended higher through mid-August when Fed Chair Jerome Powell made it clear the Fed did not share investors' optimistic inflation outlook. It still viewed inflation as a threat and planned to continue to raise rates aggressively into 2023.

Other central banks concurred. Last week, Katie Martin of *Financial Times* reported, "In an extraordinary sweep, central banks from the U.S. to Switzerland embarked on what looked like competitive policy tightening…10 central banks delivered a massive combined total of 6 percentage points of rate rises just this week. Several rises, including the latest from the U.S., were of some 0.75 percentage points, three times the usual scale of rate moves."

Aggressive central bank tightening caused investors to reassess their expectations. The result was a market sell off. "In the month since Federal Reserve Chair Jerome Powell laid down a hard line on inflation, stocks have suffered double-digit losses, chasms have opened in global currency markets, and yields on the safest U.S. government debt have surged to their highest levels since the dark days of the financial crisis nearly a decade and a half ago," reported Howard Schneider of *Reuters*.

There is a concept in financial markets known as capitulation. It occurs when fear takes hold. Investors abandon hope that the stock market will deliver positive returns and they sell. Capitulation often is a sign the market has bottomed, reported Nicholas Jasinski and Jacob Sonenshine of *Barron's*. In recent weeks, investors have been selling, but some say the market has not yet reached capitulation.

If you're tempted to sell, think carefully. The wiser course may be to stay invested. A recession is at least partly priced into current U.S. stock prices. In addition, the strength of the dollar will help the Fed's effort to bring inflation down, reported *Financial Times*.
It's important to remember that stock markets are leading indicators. They reflect what investors anticipate will happen in the future. As a result, the market often bottoms during a recession and begins to rise before the recession ends, reported Sergei Klebnikov of *Forbes*.

Data as of 9/30/22	**1-Week**	**Y-T-D**	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Standard & Poor's 500 Index	-2.9%	-24.8%	-16.8%	6.4%	7.2%	9.5%
Dow Jones Global ex-U.S. Index	-4.8	-28.4	-27.7	-3.5	-3.0	0.8
10-year Treasury Note (yield only)	3.8	N/A	1.5	1.7	2.3	1.6
Gold (per ounce)	1.7	-8.2	-4.1	4.0	5.6	-0.7
Bloomberg Commodity Index	-0.8	12.4	10.7	12.8	5.9	-2.8

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.
Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

THE WEEKLY WRAP-UP. It was a tumultuous week. In the United States, Hurricane Ian pummeled Florida and South Carolina. Analysts estimate the destruction in Florida will cost U.S. insurance companies about $63 billion, although the cost of recovery will be much higher. "The total economic damage will be well over $100 billion, including uninsured properties, damage to infrastructure, and other cleanup and recovery costs," according to a source cited by Max Reyes of *Bloomberg*.

In the United Kingdom, fiscal and monetary policies collided last week. Britain's new government plans to encourage economic growth with a stimulus package to offset energy costs and big unfunded tax cuts. The government's fiscal stimulus plan could spark at the same time Britain's central bank is trying to tamp inflation down. Investors showed their disapproval by selling U.K. government bonds, which are known as gilts. As yields surged, gilts rapidly lost value, imperiling the nation's pension funds. The Bank of England staged an emergency intervention, calming bond markets by promising to continue its bond purchases, reported Brian Swint of *Barron's*.

Inflation continued to be a concern around the globe. In the U.S., the Personal Consumption Expenditures Index was released last week. It showed prices rose 6.2 percent year-over-year in August. In the 19-member Eurozone, inflation was up 10 percent in September, largely because energy prices are up more than 40 percent year-over-year, reported Elliot Smith of CNBC. In Argentina, the central bank lifted its benchmark rate for the ninth time – to 75 percent – in an effort to tame inflation.

The war in Ukraine continued to affect food and energy supplies, driving prices higher. The agreement between Russia and Ukraine that allowed some grain exports to Europe, Asia, the Middle East and Africa in July and August appears to be in jeopardy. Russia is reconsidering the agreement, and has threatened to reject it, which could exacerbate food insecurity in some countries and drive food prices higher.

On Friday, major U.S. stock indices were in bear territory, closing at 52-week lows, reported Ben Levisohn of *Barron's*. The yield on benchmark U.S. Treasury notes rose to a 14-year high before falling back a bit to finish the week at 3.8 percent.

Weekly Focus – Think About It

"Earnings don't move the overall market; it's the Federal Reserve Board...focus on the central banks, and focus on the movement of liquidity...most people in the market are looking for earnings and conventional measures. It's liquidity that moves markets."

—Stanley Druckenmiller, asset manager

Best Regards,

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* Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.
* Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.
* The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index.
* All indexes referenced are unmanaged. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the afternoon gold price as reported by the London Bullion Market Association. The gold price is set twice daily by the London Gold Fixing Company at 10:30 and 15:00 and is expressed in U.S. dollars per fine troy ounce.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.

* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance.
* Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful.
* Past performance does not guarantee future results. Investing involves risk, including loss of principal.
* You cannot invest directly in an index.
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* There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.
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