SEPTEMBER 30, 2022
ECONOMIC UPDATE

FINANCIAL MARKET UPDATE

Financial markets struggled in the 3rd quarter, with an early summer rebound being reversed in late-August as Chairman Powell reaffirmed the Federal Reserve's commitment to bringing inflation under control by aggressively raising interest rates. Global markets found new lows from those originally seen in June and market pressure continued through the end of the 3rd quarter. Emerging markets had the weakest performance on the equity side, down -11.6% for the quarter, while US Large Cap equities fell -4.9%. Fixed Income saw further volatility – and was down -4.8%. This was the third consecutive quarter of losses for equities, a stretch last seen in 2008, and the third consecutive quarter of losses for both equities and bonds.

We expect continued volatility heading into year-end, particularly in equities, and market performance will be driven mainly by (1) the Federal Reserve's aggressive policy actions to combat inflation, (2) economic data on US growth and company earnings, and (3) mid-term elections. Ironically, weaker than expected economic data may actually be seen by investors as positive news as it may slow the pace of Federal Reserve rate increases.

Asset Class	Q3 2022
Multisector Bonds	-2.3%
US Mid Cap	-2.5%
US Core Bonds	-4.8%
US Large Cap	-4.9%
US Small Cap	-5.2%
Infrastructure	-5.6%
Equity Alternatives	-7.2%
Developed International	-9.4%
Real Estate	-10.3%
Emerging Markets	-11.6%

An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly

INTEREST RATES & INFLATION

The Federal Reserve tightened monetary policy by 0.75% at both their July and September meetings. Although markets rallied in the summer on optimism the Federal Reserve could begin slowing the pace of interest rate hikes in September, stronger than expected employment data and persistently high inflation data kept policy on the more aggressive tightening path. The current range of the Federal Funds Rate is 3.00% - 3.25% - the highest since 2008. This has raised interest rates across the economy, particularly in the mortgage space, where the 30-year mortgage is the highest since 2007. Two policy setting meetings remain for 2022 and currently the market is pricing in 0.75% of tightening in November and 0.50% - 0.75% in December, in line with what the Federal Reserve has outlined.

EMPLOYMENT

Job gains reflect a strong labor market. Monthly employment in 2022 has averaged 420,000 new jobs per month. Although this is down from 562,000 per month in 2021, it is well above the 90,000 – 100,000 jobs per month needed to keep the labor force steady. Good news has been met with poor market performance this year; strong economic readings give the Federal Reserve more backing to continue tightening interest rates at an aggressive pace.

US ECONOMY

US GDP growth has shrunk for two consecutive quarters: -1.6% in the 1st quarter and -0.6% in the 2nd quarter. Although the readings can be attributed to Omicron in the 1st quarter and higher imports than exports in the 2nd quarter, negative growth in two consecutive quarters met one common definition of a recession. Recessions in the US, however, are measured and declared by an independent body called the National Bureau of Economic Research (NBER). The NBER can take between four and twenty-one months to declare a recession. They look at a host of economic indicators, including the employment situation, in making their final determination. Whether a recession is eventually declared or not, growth is undoubtedly slowing in line with the Federal Reserve's goal of aggressively tightening policy.

FOCUSING ON THE LONG-TERM

Although the causes of recessions and bear markets vary widely and such periods are stressful and uncomfortable, each has set the stage for future periods of strong economic and market growth. We believe in our long-term strategy and feel that investors who stay the course will be rewarded for their diligence.