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Quarterly Market Review: July - September 2022 & extended – October & November observations

The ramifications of stamping down rising inflation dominated the markets in the third quarter. Investors weighed the balance between an aggressive government policy aimed at curbing price pressures against the possibility of those very policies leading to an economic recession. That dichotomy was not lost on Federal Reserve officials, who stoically made clear that "a sustained period of below trend growth" may be a necessary byproduct as part of the effort to bring down inflation. Ultimately, investors moved away from risk, sending stocks lower for the third straight quarter of 2022, while putting an exclamation point on the worst decline in the first nine months of a year in 20 years.

By the end of the quarter, the Dow, the S&P 500, and the Nasdaq had entered into bear market territory. All three benchmark indexes are down at least 21.0% on the year. Crude oil prices declined sharply in the quarter for several reasons, including waning fuel demand, China's ongoing COVID lockdown policy, the unexpectedly benign impact of sanctions against Russian oil exports, rising inflation, and the strength of the U.S. dollar.

The strength of the dollar often weighs on oil and other commodities that are priced in that currency, making them more expensive to purchasers using other currencies. Bond prices declined during the quarter, pushing yields up. The 10-year Treasury yield jumped 83 basis points since the end of June and nearly 230 basis points on the year. Gold prices struggled to maintain any momentum, ultimately falling more than 7.50% in the quarter.

Wall Street rebounded in July as investors saw a glimmer of hope that inflationary pressures were easing. An increase in consumer discretionary shares helped drive the S&P 500 up over 9.0%, the best monthly gain since the end of 2021. The Nasdaq led the benchmark indexes listed here, climbing 12.4%, followed by the Russell 2000, which rose 10.4%. The Dow added 6.7%, while the Global Dow gained 3.8%. Long-term bond prices advanced, driving bond yields lower.

Ten-year Treasury yields fell 33 basis points to close the month at 2.64%, their lowest level in nearly four months. Crude oil prices slid over 7.0% to $98.23 per barrel, while prices at the pump fell on waning demand. The dollar continued to strengthen, while gold prices lost more than 1.5%. The Federal Reserve hiked interest rates 75 basis points, despite several inflationary indicators showing a slowdown in price pressures.

The second estimate of the second-quarter gross domestic product showed the economy retracted by 0.6%. While industrial production rose 0.5%, durable goods orders slid 0.1%. The housing sector retracted, impacted by rising mortgage interest rates, as both existing home sales (-5.7%) and sales of new single-family homes (-9.4%) declined.

August saw stock markets give back July gains, as investors grew increasingly worried that the economy was headed toward a recession. Large-cap stocks were hit particularly hard, pulling the major benchmark indexes lower. The Nasdaq, the Dow, and the S&P 500 lost more than 4.0%. The small caps of the

Russell 2000 performed best, despite closing down 2.2%. Long-term bond yields jumped higher as prices slid. The yield on 10-year Treasuries rose nearly 50 basis points to 3.13%.

Crude oil and gas prices continued to fall. The dollar rose nearly 3.0% against a basket of global currencies. Gold prices declined more than 3.0%. After adding over 500,000 new jobs in July, the labor sector continued to advance, albeit at a slower pace, with the addition of 315,000 new jobs.

Although the Federal Open Market Committee did not meet in August, Fed Chair Jerome Powell's comments at the Jackson Hole gathering were definitely hawkish, confirming the Committee's stance that inflation had to be tamed, despite some economic hardship. Adding fuel to the fire, inflationary indicators in August showed prices reversed course from the month earlier. The Consumer Price Index rose 0.1%, while the personal consumption expenditures price index rose 0.3%.

Stocks soured in September as investors worried about an impending economic recession, despite an uptick in consumer spending (personal consumption expenditures), which accounts for nearly 70% of economic activity. The Federal Reserve increased the target range for the federal funds rate 75 basis points, while anticipating ongoing increases in the target range will be appropriate.

Despite a surge in stock values early in the month, each of the benchmark indexes ended September in the red. Crude oil prices fell in September for the fourth consecutive month. The yield on 10-year Treasuries rose by 67 basis points. The dollar advanced, while gold prices slid lower.

Stock Market Indexes – as of 9/30

Market/Index	2021 Close	As of 9/30	Month Change	Qtr Change	YTD Change
DJIA	36,338.30	28,725.51	-8.84%	-6.66%	-20.95%
NASDAQ	15,644.97	10,575.62	-10.50%	-4.11%	-32.40%
S&P 500	4,766.18	3,585.62	-9.34%	-5.28%	-24.77%
Russell 2000	2,245.31	1,664.72	-9.73%	-2.53%	-25.86%
Global Dow	4,137.63	3,168.34	-10.21%	-9.67%	-23.43%
Fed. Funds	0.00%-0.25%	3.00%-3.25%	75 bps	150 bps	300 bps
10-yr Treasuries	1.51%	3.80%	67 bps	83 bps	229 bps
US Dollar-DXY	95.64	112.17	3.18%	7.13%	17.28%
Crude Oil-CL=F	$75.44	$79.67	-10.48%	-24.71%	5.61%
Gold-GC=F	$1,830.30	$1,670.50	-2.97%	-7.61%	-8.73%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark performance of specific investments.

Wall Street extended its rally for the second consecutive week as each of the benchmark indexes listed here posted gains. As is most often the case lately, the market experienced plenty of volatility last week. Ultimately, a hotter-than-expected labor report reignited inflation concerns and the continuation of an aggressive monetary policy by the Federal Reserve.

Average hourly earnings have steadily increased over the past three months, while solid monthly job gains have shown that there are more positions to be filled. Investors not only dealt with inflation concerns and the Fed's response, but traders had to assess the impact of the ongoing Russia/Ukraine war and China's response to rising COVID cases.

Despite the tumult, stocks continued to advance. Ten-year Treasury yields fell as bond prices climbed higher. Crude oil prices rallied from a three-week lag, advancing 5.0%. The dollar slid lower, while gold prices posted gains for the second week in a row.

Investors were discouraged to hear several Federal Reserve officials indicate that more work has to be done to curb inflation, including more substantial interest-rate increases. China's response to rising COVID cases has led to demonstrations, which has added to that country's uncertain economic situation.

News that the Federal Reserve may soften the pace of interest-rate hikes sent stocks higher last Wednesday. The Nasdaq surged 4.4% and the S&P 500 gained 3.1% to lead the benchmark indexes listed here. The Russell 2000 advanced 2.6%, followed by the Dow (2.2%) and the Global Dow (1.7%). Crude oil prices rose for the first time in several sessions following a report that U.S. reserves declined, and that China may lessen COVID-related restrictions. Long-term bond prices advanced, pulling yields lower. Ten-year Treasury yields slid 4.5 basis points to 3.70%. The dollar slid lower, while gold prices increased.

At the close of November stocks saw mixed results. The Russell 2000 gained 0.6%, while the Dow and the Global Dow barely eked out gains. The Nasdaq slid 0.2% and the S&P 500 dipped 0.1%. The much anticipated jobs report came in better than expected, adding to the likelihood that the Federal Reserve will keep tightening even if the pace of interest-rate hikes slows.

Stock Market Indexes – as of 12/2

Market/Index	2021 Close	Prior Week	As of 12/02	Weekly Change	YTD Change
DJIA	36,338.30	34,347.03	34,429.88	0.24%	-5.25%
NASDAQ	15,644.97	11,226.36	11,461.50	2.09%	-26.74%
S&P 500	4,766.18	4,026.12	4,071.70	1.13%	-14.57%
Russell 2000	2,245.31	1,869.19	1,892.84	1.27%	-15.70%
Global Dow	4,137.63	3,751.92	3,797.60	1.22%	-8.22%
Fed. Funds	0.00%-0.25%	3.75%-4.00%	3.75%-4.00%	0 bps	375 bps
10-yr Treasuries	1.51%	3.69%	3.50%	-19 bps	199 bps
US Dollar-DXY	95.64	105.96	104.50	-1.38%	9.26%
Crude Oil-CL=F	$75.44	$76.28	$80.13	5.05%	6.22%
Gold-GC=F	$1,830.30	$1,754.00	$1,811.80	3.30%	-1.01%

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Latest Economic Reports

• **Inflation/consumer spending:** While inflationary pressures appeared to wane in July, data for August revealed prices reversed course and moved upward. The personal consumption expenditures price index, a preferred inflation indicator of the Federal Reserve, advanced 0.3% in August after retreating 0.1% the previous month. For the year ended in August, prices have increased 6.2%. Prices less the volatile food and energy increased 0.6% in August and 4.9% since August 2021. In addition, personal income increased 0.3% in August, the same increase as in July.

Wages and salaries rose 0.3% in August after jumping 0.8% higher in July. Disposable (after-tax) personal income advanced 0.4% in August following a 0.3% bump higher in July. Consumer spending, as measured by the personal consumption expenditures index, increased 0.4% after decreasing 0.2% in July. Driving the increase in the PCE index was a 0.8% rise in consumer spending on services. Spending on goods actually fell 0.5% in August following a 0.7% decline in July.

• The Consumer Price Index rose 0.1% in August, unchanged from the previous month. For the 12 months ended in August, the CPI increased 8.3% (8.5% for the 12-month period ended in July). Both the monthly and 12-month rates were above expectations. In August, the CPI less food and energy rose 0.6% after increasing 0.3% in July. Increases in prices for shelter, medical care, household furnishings and operations, new vehicles, motor vehicle insurance, and education were several of the many contributors to the broad-based monthly CPI increase.

• **FOMC/interest rates:** The Federal Open Market Committee increased the federal funds target rate range 75 basis points following its meeting in September. With the latest increase, the FOMC has increased interest rates by 300 basis points since January. In its statement following the September meeting, the Committee expects inflation will continue to run higher for the foreseeable future. The FOMC projects interest rates will increase another 125 basis points for the remainder of 2022.

• **Housing:** Sales of existing homes retreated for the seventh consecutive months in August, falling 0.4% from the July estimate. Year over year, existing home sales were 19.9% under the August 2021 total. According to the latest survey from the National Association of Realtors®, rising mortgage rates have impacted sales. In addition, inventory remains tight as homeowners are reluctant to sell after locking in historically low mortgage rates in recent years. The median existing-home price was $389,500 in August, down from $399,200 in July but 7.7% higher than August 2021 ($361,500).

Unsold inventory of existing homes represents a 3.2-month supply at the current sales pace, unchanged from July. Sales of existing single-family homes also fell, down 0.9% in August. Sales of existing single-family homes have fallen 19.2% since August 2021. The median existing single-family home price was $396,300 in August, down from $405,800 in July but 7.6% over the August 2021 price.

• Sales of new single-family homes soared in August, increasing 28.8% from July's total but 0.1% below the August 2021 estimate. Although mortgage interest rates increased in August, the price of homes sold decreased, helping drive sales. The median sales price of new single-family houses sold in August was $436,800 ($466,300 in July). The August average sales price was $521,800 ($556,700 in July). The inventory of new single-family homes for sale in August represents a supply of 8.5 months at the current sales pace, down from July's 10.6-month supply.

• Personal income advanced a notable 0.7% in October, according to the latest data from the Bureau Economic Analysis. Consumers were apparently undeterred by rising prices and interest rates as personal consumption expenditures advanced 0.8% in October. The personal consumption expenditures price index, a measure of inflation, advanced 0.3% in October and 6.0% for the last 12 months, down from 6.2% for the 12 months ended in September. Core prices, excluding food and energy, rose 0.2% in October and 5.0% since October 2021, down 0.2 percentage point from the same period ended in September.

• **International markets:** The global fight against rising inflation apparently has a long way to go, and economies are beginning to feel the impact. The Bank of England, undeterred by the prospects of an economic recession, tightened its monetary policy further in September, hiking the bank rate 50 basis points to 2.25%, equaling the August rate hike, which marked the first time in 27 years that the bank rate had been increased by more than 25 basis points.

Stocks reacted poorly to comments from the BOE, following a pledge to proceed with planned tax cuts while continuing to raise interest rates. With these moves, the BOE has revised the near-term outlook for inflation from 13.3% in October to nearly 11.0%. In addition, the British government announced the introduction of an energy-price guarantee that will cap household energy costs for the next two years. Nevertheless, the eurozone's annual rate of inflation hit 10.0% in September, the highest growth rate in prices since 1997.

The war in Ukraine took another turn following Russian President Vladimir Putin's move to annex portions of eastern Ukraine, further adding to stock market concerns. In China, weakening manufacturing and a slowdown in the property sector prompted the People's Bank of China to relax its monetary policy in diverging from the policy tightening at other central banks. Overall for the markets in September, the STOXX Europe 600 Index slid 6.6%. The United Kingdom's FTSE fell roughly 5.1%. Japan's Nikkei 225 Index plunged 6.2%, while China's Shanghai Composite Index lost 5.1%.

• There were 263,000 new jobs added in November, in line with average growth over the prior three months (282,000). By comparison, 647,000 new jobs were added in November 2021. Job growth has averaged 392,000 in 2022, evidencing a slowdown in the number of new jobs added over the second half of the year. In November, notable job gains occurred in leisure and hospitality, health care, and government. Employment declined in retail trade and in transportation and warehousing. The unemployment rate, at 3.7%, was unchanged in November and has sat within a range of 3.5% to 3.7% since March. The number of unemployed persons slid by 48,000 to 6.0 million in November.

Both the labor force participation rate and the employment-population ratio dipped one percentage point to 62.1% and 59.9%, respectively. In November, average hourly earnings rose by $0.18, or 0.6%, to $32.82. Over the past 12 months, average hourly earnings have increased by 5.1%. In November, the average work week declined by 0.1 hour to 34.4 hours.

• The manufacturing sector weakened in November, according to the S&P Global US Manufacturing PMI™. The purchasing managers' index posted 47.7 in November, down from 50.4 in October, marking the first decline in the manufacturing sector since June 2020. The downturn in operating conditions was widespread, with decreases in production, output, and new orders. Employment growth slowed as backlogs of work waned.

• According to the U.S. Energy Administration, the national average retail price for regular gasoline was $3.534 per gallon on November 28, $0.114 per gallon below the prior week's price but $0.154 higher than a year ago. Also as of November 28, the East Coast price decreased $0.070 to $3.468 per gallon; the Gulf Coast price fell $0.106 to $2.915 per gallon; the Midwest price declined $0.145 to $3.374 per gallon; the West Coast price dropped $0.187 to $4.592 per gallon; and the Rocky Mountain price decreased $0.097 to $3.539 per gallon. Residential heating oil prices averaged $5.147 per gallon on November 28, $0.284 below the previous week's price but $1.784 per gallon more than a year ago.

The fourth quarter is expected to continue the trends from the previous three months. Inflationary pressures are likely to slow as the Federal Reserve continues its aggressive policies until inflation settles at the target 2.0% rate. The market will probably continue exhibiting roller coaster turbulence in response to the Fed's moves. Employment should remain strong, although rising mortgage interest rates will almost certainly impede the housing sector.

In Conclusion

We continue to stay diligent in our responsibility to you and our monitoring of the ever-changing investment environment. We wish you and yours a wonderful holiday season and prosperous new year.

Warmest regards,

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an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indices listed are unmanaged and are not available for direct investment.

IMPORTANT DISCLOSURES