## Market Summary: 3rd Quarter 2022

The reality of slowing growth, persistently high inflation, and an even more aggressive Fed pushed all financial assets lower for the Quarter. A third consecutive 0.75% rate hike by the Fed and forward guidance of an additional 1.50% hike by February has fueled expectations of an imminent recession. With rates rising at a record pace, the global bond market was the hardest hit this quarter as yields jumped to levels not seen since 2007. The yield curve inverted further with mid-term rates rising faster than long term rates. Meanwhile in the stock market, "Value" sectors underperformed "Growth" sectors during the quarter, the first time this year, but still are +12% points ahead for the year. The biggest loser was Foreign markets as they are facing an energy crisis, double digit inflation, the War, and concerns over trade with China. Volatility remained wildly high as the markets oscillated between fear of a deep recession and hope that the worst is in the rear view mirror.

| Index Returns: | QTD | YTD | | QTD | YTD | | QTD | YTD |
|---|---|---|---|---|---|---|---|---|
| US Blend Equity | -4.44% | -24.8% | U.S. Growth | -3.63% | -31.6% | U.S. Short Bond | -2.20% | -6.62% |
| Foreign Developed | -10.3% | -27.3% | U.S. Value | -5.66% | -18.7% | Intermediate Corp Bond | -5.21% | -16.35% |
| Emerging Equity | -13.0% | -28.0% | Small Blend | -2.11% | -25.1% | High Yield Bond | -1.72% | -15.25% |

**Market Outlook: Rising Rates, Slowing Growth, Volatility, Potential New Lows.** Rising rates will continue to weigh heavy on all asset valuations. This combined with slowing growth will keep volatility elevated and will likely push stock prices to new lows. The good news is the Fed has made it clear that bringing inflation under control is now their top priority. The bad news is this aggressive tightening will likely cause significant pain to the economy in the form of rising unemployment and lower corporate earnings. According to Fed Chairman Powell, the Fed needs to see positive "Real Rates" (nominal rates above inflation) for some period of time before they would even consider pivoting to an easier stance. Today, with the Fed Funds rate at 3%, 10yr Treasuries at 3.6% and inflation is 8.3%, it will likely take many more Quarters to resolve this imbalance. In the meantime, stocks will continue to see large swings in price, but ultimately they will follow the direction of earnings (growth). Currently, stocks are priced for over +8% growth in 2023, an exceptionally optimistic target, and will likely lead to further disappointment.