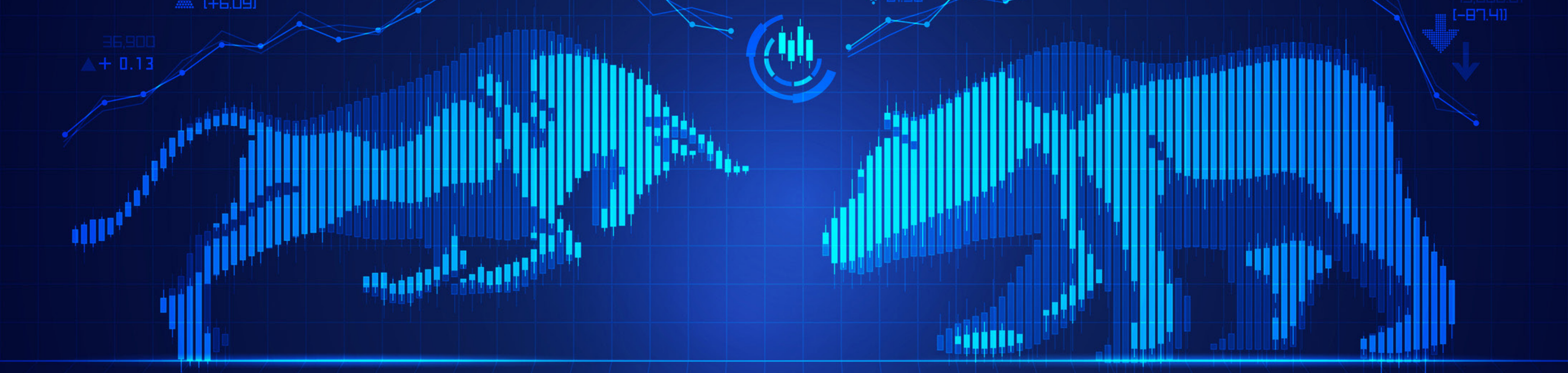
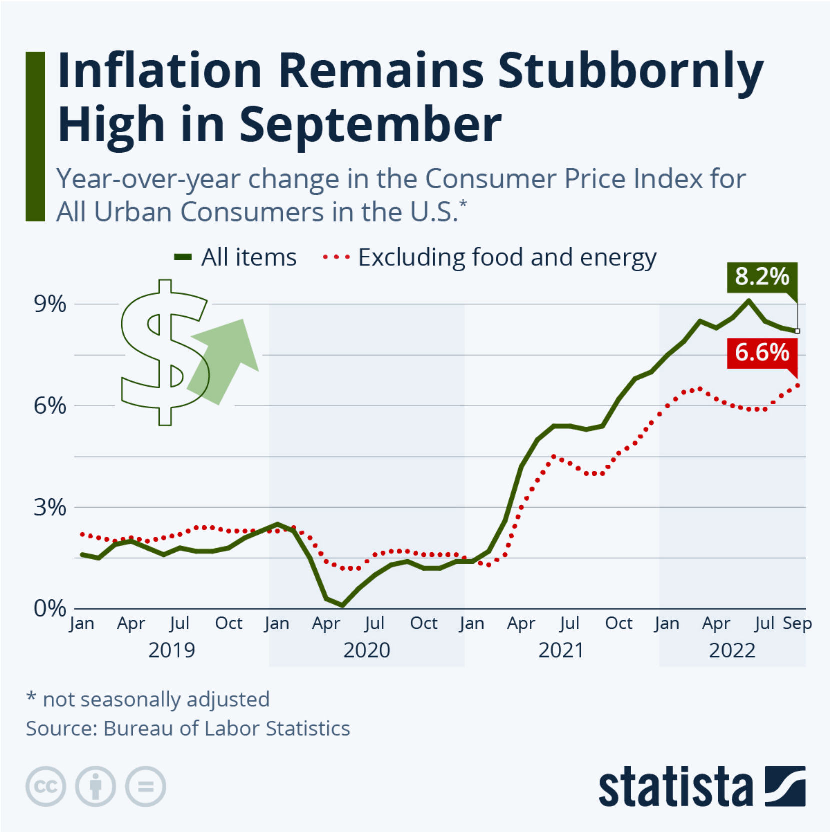


Capital Market Review
Third Quarter 2022

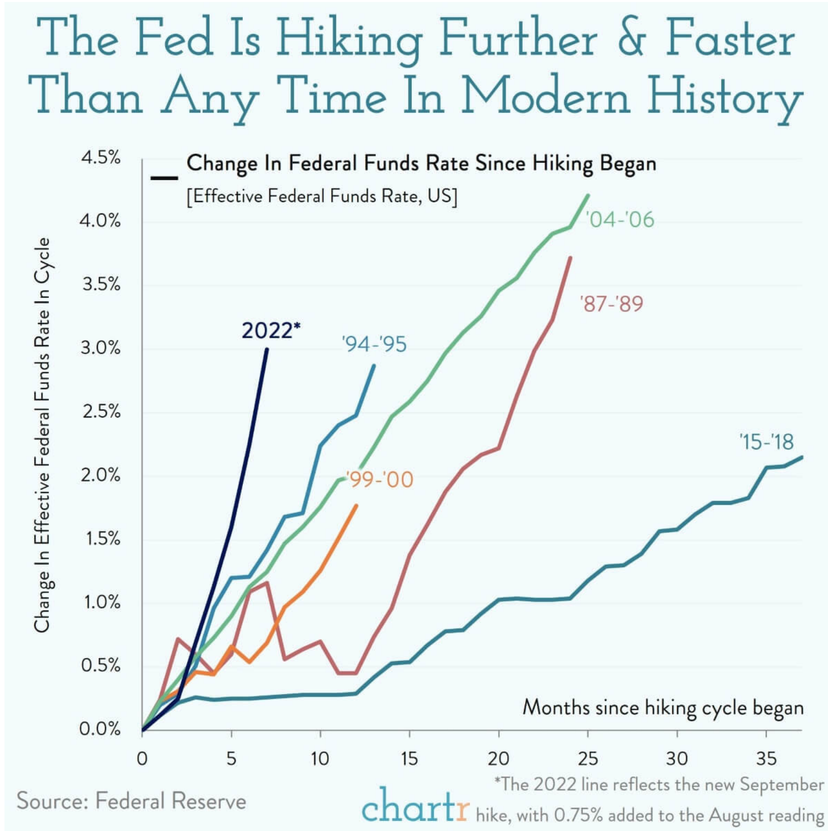
By: Jim Rambo, CFA

Inflation



Source: *[Inflation Remains Stubbornly High in September | Statista]*

While inflation has pulled back from the June 9.1% screaming, 40-year high, levels remain elevated at 8.2%. September figures shows a reduction in gas prices, but costs for shelter, medical care, and food continue to rise. The war in Ukraine has driven up energy and food prices. But excluding food and energy, core inflation continues to rise. Economists expect inflation to remain elevated into 2023. Inflation has a huge impact on both the economy and financial markets. Households suffer as rising expenses have outpaced rising incomes. And financial markets are afflicted as the Fed raises interest rates more quickly than hoped.

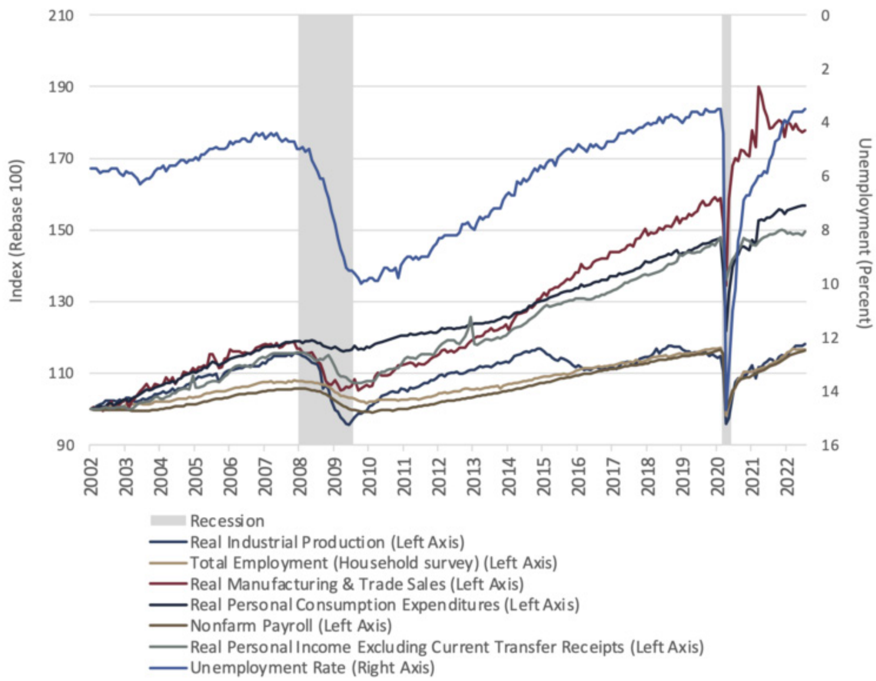


Source: [A love for hiking: The Fed is raising rates at an unprecedented pace (chartr.co)]

The Fed has increased interest rates in 2022 faster than any other time in recent history. The Federal Funds rate has risen by more than 3% in just six months. The market expects another 0.75% hike in November and perhaps another 0.75% in December, leaving the short-term rate near 4.5% for year-end. 30-year mortgage rates began 2022 near 3.0% and are now approaching 7%. The housing market is quickly cooling, but the cost of shelter component of inflation continues to rise.

Recession

EXHIBIT A: NBER RECESSION METRICS



Source: Federal Reserve, U.S. Bureau of Labor Statistics (BLS), U.S. Bureau of Economic Analysis (BEA), Macrobond, Fiduciary Trust Company. NBER is the National Bureau of Economic Research. Values represent absolute index levels rebased to 100 on January 1, 2002. Data as of September 30, 2022.

Source: [2022 Q4 Outlook, Exhibit A, NBER Recession Metrics]

Most experts believe we're heading toward a recession by next year, or that the recession already began, with the first two quarters of 2022 posting negative GDP growth. This technical and simple definition of a recession has fallen out of favor. The more subjective and nuanced definition by the National Bureau of Economic Research (NBER) is more often cited today, especially by politicians. The metrics used by the NBER are currently too strong for them to call a recession soon. But, they are known to officially mark recession start dates much later than when the recession began. For example, on December 1, 2008, the NBER announced the U.S. was officially in a recession that began a full year earlier in December 2007.

Source: [*Chart: U.S. Stocks on Track for Worst Year Since 2008 | Statista*]

After a difficult September third quarter close, U.S. stocks are on track for the worst year since 2008. Only the Energy sector has positive returns, with all other stock sectors losing value this year. The hardest hit areas have been Information Technology, Communication Services, and Consumer Discretionary as the market braces for an economic slowdown. While a 20% drawdown (bear market) is uncomfortable, it's not uncommon. On average, we experience a bear market every seven years and a crash (30% or more drawdown) every twelve years. The bond market has fallen by 14.7% and is on track to be the most significant yearly decline since 1949. And typically, the bond market is positive in times when stocks are negative. The last year both were negative was 1994. Today's markets are challenging, but we expect and plan for these environments when managing portfolios. Holding the course and sticking with your investment plan is how to weather volatile markets.

10/2022