



Monthly Market Update – September 2022

Stock and Bond Markets Fall as Global Central Banks Try to Tackle Inflation



Volatility and investor anxiety remained the major themes of the capital markets for 2022 as the highest inflation in decades and the global central banks' efforts to tame it – even at the possible expense of economic growth – are testing the mettle of even the most seasoned investors. Central banks in several developed and emerging markets – including the U.K., Switzerland, Norway, Sweden, Philippines – each raised policy rates by varying degrees during the quarter, while Turkey moved to lower its benchmark rate. The Bank of Japan remained another outlier as it intervened to support the yen and maintained its ultra-loose monetary policy.

Below are some performance figures on a few major indices through September 30th:

Index	2016	2017	2018	2019	2020	2021	Sept.	3Q22	YTD 9-30-22	10-year annualized (as of 9-30)
S&P 500®	11.96%	21.83%	-4.38%	31.42%	18.40%	28.7%	-9.2%	-4.9%	-23.9%	11.7%
MSCI ACWI Ex.-U.S. (local)	3.47%	11.70%	-7.77%	18.11%	-1.18%	16.7%	-6.3%	-4.1%	-16.2%	4.6%
MSCI Emrg. Mkts. (local)	7.12%	27.76%	-12.25%	15.84%	16.64%	-2.3%	-9.6%	-9.1%	-22.7%	2.0%
Bloom/Barclays Agg. Bond	2.65%	3.57%	0.01%	8.72%	7.51%	-1.7%	-4.3%	-4.8%	-14.6%	0.9%

Global Economy: In mid-September, there were hopes that the August inflation figure would come in weaker than expected, meaning the Fed could (eventually) ease up on quantitative tightening. The CPI figure, however, rose 8.3% Y/Y in August vs. the 8.1% consensus forecast, while core CPI - which strips out volatile food and energy prices - rose more than expected to 6.3%, from 5.9% in July. These figures were despite gas prices that have come down tremendously over the past few months, suggesting that price pressures are seeping into more parts of the economy, like housing and medical services. As expected, the Fed approved a 0.75% increase at its September meeting, taking its benchmark federal funds rate to a target range of 3.0–3.25%, the highest level since 2008. The Fed now projects the benchmark rate, which had a target range of 0.0–0.25% in January, to reach 4.6% in 2023. The U.S. labor market continued to be a bright spot despite the slowing economy. The unemployment rate in August rose to 3.7%, while the labor force participation rate increased 0.3% to 62.4%. Despite the current economic slowdown, it's important to note the U.S. economy, historically, has not entered a recession while experiencing job growth.

Stocks: Global equity markets posted dismal returns during the quarter as central banks across the world continued to try and fight inflation by raising rates, which also increased the likelihood of a recession. In the U.S., the S&P 500 Index was down about -5% as the market gave back all of its gains since mid-June as the Fed re-emphasized its mission to bring inflation under control. Real estate and communication services were the hardest-hit sectors this quarter, losing more than 10%. At the company level, Charter Communications and FedEx led the way lower, about -33% each. One bright spot during the quarter was the consumer discretionary sector, which was up about 5% for the quarter. For example, companies such

as Etsy, Royal Caribbean and Bath & Body Works are among the biggest gainers in the sector. The energy sector also had a positive return during the quarter, up about +2% as companies like Marathon Petroleum had returns well over 10% for the period. Overseas there were a few countries that posted positive returns during the quarter including Norway, Australia and surprisingly the U.K.

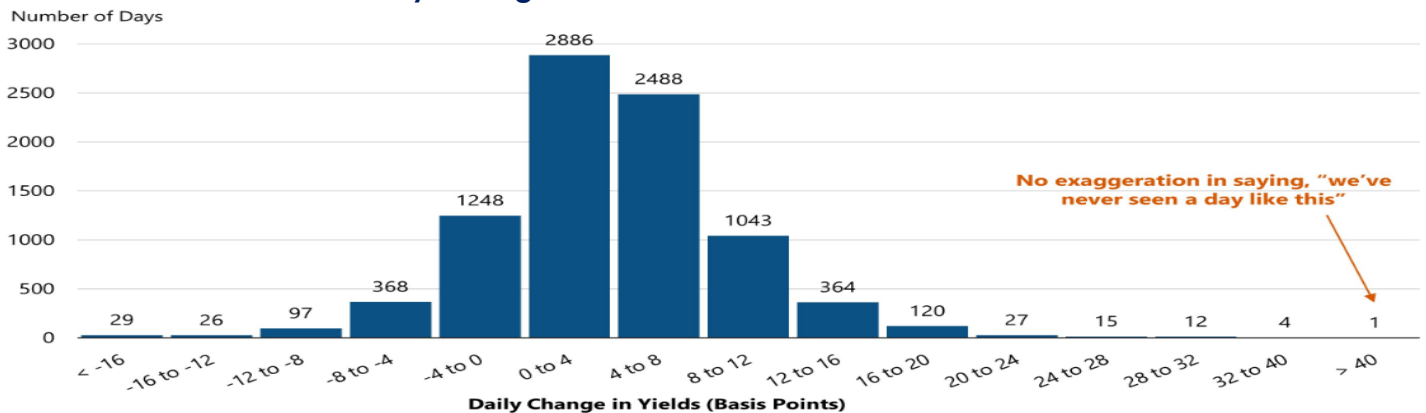
Bonds: The U.S. bond market had a gruesome quarter as the Bloomberg Aggregate Bond Index lost about -4.8% during the third quarter, with most of that loss coming from September. The yield curve was firmly inverted by quarter end with the 2-year Treasury yield increasing by 1.3% to 4.2% while the 10-year Treasury yield increased by 93 basis points to 3.829% on the last day of the quarter. High yield bonds help up the best during the quarter as its yield advantage only resulted in a loss of -0.7%.

Things to Watch For:

U.S. non-farm payroll figure (released Friday October 7th) – The U.S. jobs report for August is expected to show 300K jobs were added. Last month about 800,000 people re-entered the workforce pushing the unemployment rate up to 3.7% so keep an eye on other details than the headline figure.

U.K. – The U.K. bond turmoil forced the Bank of England to step into the market as government borrowing costs surged amid fears of the government's tax-cutting plans. The central bank suspended the planned start of its gilt selling and said it would temporarily buy long-dated bonds, scooping them up on "whatever scale is necessary." The yield on the 10-year gilt tumbled in response, falling 36 basis points to 4.15%, while pound sterling rose above \$1.08, before quickly wiping out those gains. The backdrop for this move was that Gilt yields were on track for their sharpest monthly rise since at least 1957 after Prime Minister Liz Truss unveiled her so-called "mini-budget." The plan included sweeping tax cuts for individuals, businesses and house purchases, while subsidizing soaring energy costs. The Treasury even forecast that it would wipe £45B off government revenues over the next five years, sending shock waves through financial markets.

Daily Change in 10-Year U.K. Gilt Yields since 1991



Sources: Bloomberg and Payden & Rygel.

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