

### Stocks Tumble 10% in September; Recession Approaching?

Inflation remains persistent. To fight it, the Federal Reserve (the Fed) indicated it would need to raise rates higher than originally expected for longer, sending shocks through the market. As in previous months, these events drove the market's major currents in September as investors concluded that a deeper recession in 2023 may be the necessary antidote to inflation.

As a result, the S&P 500 recorded a 9.34% loss for the month, in line with the other major indices.

Recession is a word that evokes a lot of dread, especially if one uses 2020 or 2008 as their recessionary archetype, and not 2001 or 1990. But while we believe that we can expect more months of volatility, and more sequels in this continuing market storyline to come, we think a 2023 recession should be relatively mild, historically speaking, as the labor market remains strong and consumer confidence edges up with slowly abating prices.

This from Raymond James Chief Investment Officer Larry Adam:

"It is understandable that investors are growing weary due to the difficulties and unforeseen events experienced this year. And during these times of uncertainty, it can be difficult to imagine anything but the worst-case scenario unfolding. While our outlook for the next 12 months isn't without challenges, we do not think a severe economic downturn and continued weakness for the major asset classes is what's to come."

Returning to September, the Fed raised its baseline interest rate by 75 basis points and the expectation is that it will follow up with an additional 100 basis points by the end of the year, 100 basis points higher than was generally expected. While the impact of this could be seen throughout the economy, the real estate sector showed its particular vulnerability to higher interest rates as residential housing investments took a large step back. Interest rates on 30-year mortgages now exceed 6.5% for the first time since 2008.

All this said, the U.S. is well-positioned compared to much of the world. Let's explore that after we review the numbers.

	12/31/21 Close	9/30/22 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	36,338.30	28,725.51	-7,612.79	-20.95%
NASDAQ	15,644.97	10,575.62	-5,069.35	-32.40%
S&P 500	4,766.18	3,585.62	-1,180.56	-24.77%

MSCI EAFE	2,336.07	1,661.48	-674.59	-28.88%
Russell 2000	2,245.31	1,664.72	-580.59	-25.86%
Bloomberg Aggregate Bond	2,355.14	2,011.06	-344.08	-14.61%

\*Performance reflects index values as of market close on Sept. 30, 2022.

### **The powerful buck**

The euro, pound and yen have significantly depreciated against the strength of the U.S. dollar, causing issues for international energy buyers of dollar-priced commodities like oil. Japan intervened in the currency markets to prop up the yen, a strategy not seen since the Asian financial crisis of 1997. Domestically, a strong dollar makes imports cheaper, which helps with inflation, but likewise hinders the affordability of our exports and can paint a more complex picture for global firms based in the U.S.

### **Crossed strategies in Britain**

The United Kingdom confirmed Liz Truss as its new prime minister, its fourth in 12 years. In her first weeks, she faced the pound falling to a new record low and a sharp increase in the cost of sovereign debt – seen as a response to the nation’s high-risk, growth-focused strategy of tax cuts and subsidies, counter to the Bank of England’s actions to put a lid on inflation.

### **Gas for now. Gas for later?**

Since the start of the Russia-Ukraine war, there have been questions about Europe’s capacity to import enough gas to make it through the heating season. Evidence points to yes, though the larger question of energy security and diversification remains open and pressing. Still, the avoidance of a once-looming worst-case scenario is a reason for relief.

### **Income buyers’ window**

The Fed’s transparency has provided a window of opportunity for income investment buyers, with investment-grade corporate and municipal yields significantly up in September and exceeding 5%. Treasuries also remain compelling options, with yields up across the curve.

### **Equity opportunities**

We can expect more discomfort in the months to come, and recession remains a high possibility, but broad declines across the market inherently create opportunities for buyers to pick up high-quality stocks at discounted prices. Though the bottom is uncertain, the upswing on the other side of a recession historically tends to leave room for gain in the years that follow.

### **The bottom line**

There's no denying the markets are an uncomfortable place to be these days. Global-scale events, war, supply chain weakness – it's a situation that requires the sterner stuff of a long-term, risk-adjusted investor. In the enthusiasm of a bull market, it can be hard to see the value of more prudent approaches. These are the moments that make their value clear.

We will continue to navigate these storms together, keeping an eye on your goals, timelines and tolerance for risk. If you have any questions, please do not hesitate to reach out. As always, we remain grateful for your continuing trust. Know that your well-being remains our top priority.

Investing involves risk, and investors may incur a profit or a loss. All expressions of opinion reflect the judgment of the authors and are subject to change. There is no assurance the trends mentioned will continue or that the forecasts discussed will be realized. Past performance may not be indicative of future results. Economic and market conditions are subject to change. The Dow Jones Industrial Average is an unmanaged index of 30 widely held stocks. The NASDAQ Composite Index is an unmanaged index of all common stocks listed on the NASDAQ National Stock Market. The S&P 500 is an unmanaged index of 500 widely held stocks. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market. The Russell 2000 is an unmanaged index of small-cap securities. The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. An investment cannot be made in these indexes. The performance mentioned does not include fees and charges, which would reduce an investor's returns. Bond prices and yields are subject to change based upon market conditions and availability. If bonds are sold prior to maturity, you may receive more or less than your initial investment. Holding bonds to term allows redemption at par value. There is an inverse relationship between interest rate movements and bond prices. Generally, when interest rates rise, bond prices fall and when interest rates fall, bond prices generally rise. Investing in the energy sector involves special risks, including the potential adverse effects of state and federal regulation, and may not be suitable for all investors. Investing in commodities is generally considered speculative because of the significant potential for investment loss. Their markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Material created by Raymond James for use by its advisors.