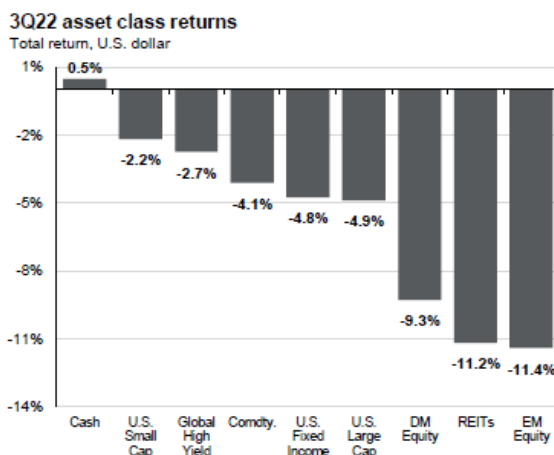


Monday, October 3, 2022

Good morning:

Equity markets closed out September and the 3<sup>rd</sup> quarter last week with yet another decline. Major indices posted weekly losses of between 2½ - 3%, to modestly breach the year's previous lows from June. This retest was not entirely unexpected since technical traders often trade aggressively in the options and futures markets based on such short-term targets and historical chart patterns. Of course, in the long run, economic growth and corporate earnings matter far more than any period of heightened volatility and negative returns.

As we start the 4<sup>th</sup> quarter today in a year where the only asset class that has not lost nominal value is cash, stocks appear very oversold. Perhaps some investors and traders concur and are looking for a fresh start to the end of a very difficult year as stocks begin trading today with strong gains of 1 - 2% in early trading. Again, after such a broadly negative quarter, many are looking for a market recovery by year end.



As we have been pointing out, equity markets tend to trade *ahead* of what's happening in the economy. Stocks will often find a bottom and start the next leg higher when inflation has peaked, the Fed makes their final hike, and a recession has just begun. Therefore, it is fair to say after this year's steep decline, valuations have been significantly lowered in anticipation of the impact of higher rates and slower growth that the Fed is orchestrating. Even a mild recession or "soft landing" is likely baked in at this point. However, a more severe or protracted recession could delay a market recovery until the full extent of such a downturn was assessed.

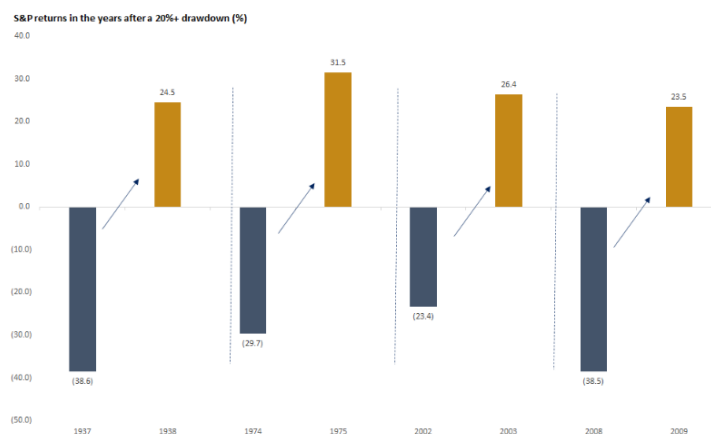
Ironically, the likely response from the Fed to a severe recession throughout history is to *cut* the very interest rates they are now aggressively hiking. Our current strong labor market and levels of consumer spending are providing resiliency to our economy which makes the Fed less likely to pivot away from their rate hiking plans until inflation begins to measurably decline. With oil prices down significantly from its annual high, we could start to see the CPI head lower in the coming months, thus enabling the Fed to reassess.

Last week also saw more vocal critics of the current Fed and how they are performing. Renowned Finance professor at The Wharton School at the University of Pennsylvania gave them a near failing grade last week saying, "They get a D, barely. They are responsible for the inflation by being way too accommodative and way too late in their beginning of the tightening, and then I believe they are going overboard in the other direction, or at least indicating by their dot plot for 2023 that they are going

to become tighter for longer, which I think is going to be a big mistake on the other side.”



As unpleasant as this year has been, it's not without precedent. Even if the year were to end here, with the S&P down 24%, well into bear market territory, history would suggest that next year could produce a strong rebound (see chart below). We believe it is important to not lose long-term perspective in periods of elevated uncertainty, anxiety, and volatility.



Source: FactSet, past performance is not a guarantee of future returns. The S&P 500 index is unmanaged and cannot be invested in directly.

Have a great week!

Mark and Jeff

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Market return and statistical data obtained from: [https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly\\_market\\_recap.pdf?segment=AMERICAS\\_US\\_ADV&locale=en\\_US](https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US)  
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