October 11, 2022

Quarter Ending September 30, 2022

Quarterly Performance	Q3 Index	YTD	Close
Dow Jones Industrial Average	-6.81%	-19.64%	28,725.51
NASDAQ Composite Price	-9.40%	-32.62%	10,575.62
Standard & Poor's Averages	-4.88%	-23.87%	3,585.62

As we had anticipated, the broad-based market volatility continued into the third quarter of 2022. The S&P 500 was down 4.88% for the quarter and is now down 23.87% year-to-date. Broad-based bond indices did not fare much better. The Barclay's Bond Index was down 4.75% for the quarter and is now down 14.61% year-to-date. At the close of the third quarter, the S&P 500 closed out a three-quarter losing streak for the first time since the 2008 Global Financial Crisis.

Simply put: there were no safes places to hide from the market volatility during the third quarter. Year-to-date, the only positive sectors of the market were commodity and energy-based asset classes. All other asset classes were down significantly. The only safe place to hide…was in cash.

The third quarter did start off on a positive note as stocks rallied through the first half of August. Corporate results for the second quarter were much better than feared. Despite high inflation and lingering supply chain issues, many companies were able to report earnings that topped Wall Street estimates. As an aside, Wall Street has been busy reducing earnings estimates in anticipation of a slowing economy. Investors were also optimistic that the economy had reached a peak in inflation. Specifically, the July Consumer Price Index report showed a moderation in pricing pressure. There was growing hope among investors that the Federal Reserve would soon "pivot" to a less aggressive policy stance.

Ultimately, though, the move higher in July and early August was nothing more than a bear market rally. In late August, while making remarks at the Jackson Hole Economic Symposium, Fed Chair Jerome Powell dismissed the idea of a looming Fed pivot to a less aggressive policy, dashing hopes that the end of the rate hike cycle was in sight. Powell warned that "the U.S. economy will likely feel some pain from the Fed's actions." St. Louis Fed President James Bullard also reminded the markets that the Fed sees no reason to veer from its course of raising interest rates to subdue inflation, even at the cost of more lost economic growth. Stocks quickly retreated from their summer gains, as investors abandoned hopes that the Fed might adopt a more moderate interest rate policy.

Moving forward, we expect the market volatility to continue. The forward paths of inflation, economic growth, interest rates, earnings, and valuations are all in flux. There are too many potential outcomes to think anything but volatility is a certainty.

Even though the near-term is uncertain, bear markets do not last. The Schwab Center for Financial Research looked at bear markets for the S&P 500 going back to the late 60's. The average bear market lasted roughly 15 months, delivering an average cumulative loss of 38.4%. The longest of the bears was just over two and a half years. The shortest was the pandemic-fueled bear market in 2020, which lasted only 33 days. The current 8-month bear market is the longest since the 2007-2009 downturn. The S&P 500 is down 23.87%. The bad news? It's possible we still see some downside ahead. The good news? We are closer to a bottom than we were last quarter.

If you have any questions or thoughts, please reach out to us!

Jeffrey L. Farni, Sr.

John C. Farni