Northport Investment Management, LLC
A Registered Investment Adviser

Market Commentary – 3rd Quarter 2022

The 2022 stock market rout deepened in the third quarter, as growing certainty that the Federal Reserve would keep raising interest rates to fight inflation, despite the risk of economic pain, reverberated through the markets. All three of the major stock indices fell for a third consecutive quarter, ending at their lowest closing levels since 2020. The Dow shed 6.7% for the quarter. It has now joined the S&P 500 and NASDAQ Composite with it's fall into a bear market, a decline of 20% from a recent high. The S&P 500 lost 5.3% for the third quarter. The NASDAQ Composite had the smallest decline, falling 4.1%. Year-to-date, the Dow, S&P 500 and NASDAQ Composite are down 21%, 25% (24% with dividends), and 32%, respectively.

Only two of the 11 S&P 500 sectors were positive for the third quarter. The Consumer Discretionary (+4.1%) and Energy (+1.2%) sectors led, while the Communications Services (-12.9%) and Real Estate (-11.7%) sectors lagged. Only one S&P 500 sector is positive year-to-date, with five sectors down over 30%. The Energy (+30.7%) and Utilities (-8.6%) sectors are the best year-to-date performers. The Communication Services (-39.4%) and Information Technology (-31.9%) sectors are the worst. Mid-cap, small-cap, international and emerging market stocks all have 20%+ losses, similar to the S&P 500 benchmark year-to-date, despite mid-cap and small cap doing slightly better in Q3. Value stocks are faring much better than Growth stocks year-to-date, but they are still down significantly.

Bonds had another poor quarter and have not provided a ballast to portfolios. Our taxable bond benchmark, the U.S. Bloomberg Aggregate Bond Index, is on track to have its worst year on record, going back to 1976. Its price is down more than 16% year-to-date. Tax-exempt bonds have performed better than taxable, but are still very negative. The yield on the benchmark ten-year Treasury note rose from 2.97% to 3.80%, over the course of the quarter, and briefly eclipsed 4% for the first time in more than a decade. Monetary tightening by the Fed has sent bond yields surging, hurting bond prices and eliminating the presumed defensive hedge that bonds offer against stocks. The central bank has also signaled that it will continue to raise interest rates until rampant inflation nears historic norms. Higher yields are now making bonds more interesting for conservative portfolios. The cash yield is currently around 3%, while shorter-term bank CDs and Treasury securities are in the 4% range. As yields rise, fixed income diversification may be pursued to a greater degree.

Northport Investment Management, LLC
A Registered Investment Adviser

With all of the negative statistics presented above, the main question on everyone's mind seems to be "when will this carnage be over". Trying to predict short-term market movements is impossible. Injecting some perspective, however, is constructive. History is filled with stock market corrections and comebacks. Dating back to 1950, data show that the S&P 500 has gone on to increase, on average, by 29% in the three years following a 20%+ decline. One-year and two-year post-bear-market timeframes are also nicely positive on average. Patience, and being able to survive inevitable market turmoil for an extended period of time, is key. An important, if not main, focus is cash flow.

September 2022 was a particularly good month for cash flow into Northport accounts from interest and dividends. Our companies continue to pay, and raise, their dividends; fixed income yields are on the rise. I remain focused on dividend paying stocks. The payment of a dividend conveys much information about a company and its prospects. It indicates that it probably has a healthy cash flow, is profitable, and will likely continue to be profitable. Earnings drive stock prices. As the third quarter earnings season approaches, I will be looking for changing business conditions and the risk of an earnings recession. Volatile price swings are disconcerting, but I strive to ignore the noise. When we buy the stock of a company, we are becoming owners of that company, ideally for the long haul. Low turnover of holdings is a core goal. Our collective aim is to buy securities that will turn enough of a profit over time to get through the era of life when paychecks end.

It is common for the stock market to fall approximately 30% before a bear market ends. We may still have more pain on the horizon. We are leaving the (post 2008) era of a stock market unhealthily addicted to artificially low, to zero, interest rates. We are returning to the "old normal", which incidentally, wasn't a bad time for stocks and bonds. It was always expected that this eventual transition would be messy. The transition is here, and it is messy. Investing in stocks remains the smartest way for people to achieve their financial goals. We are overloaded with negative or sensational news today that can lead to bad decisions. Information is too abundant, and it travels fast. It's all just opinions. We need to avoid rash moves that tend to be made more with emotions than logic. Staying the course has been lucrative over time, and will continue to be so. It may be hard to imagine in the moment, but there's a good chance that the Fed will get inflation under control, and likely that most of the current stock market decline is behind us. Trying to time the market is a fool's errand.

John M. Grib, CFA, CFP®

- Radnor Station Bldg. #1, Suite 304, 290 King of Prussia Road, Radnor, PA 19087, 610-293-0110 –