September 2022 Market Update

Special points of interest:

- **Major market indices have now entered—or re-entered—bear market territory, down more than 20% from the last market high.**
- **Bearish sentiment among investors is high, but markets often climb 'walls of worry'.**
- **10-year U.S. Treasury yields ended the quarter at 3.83%, up from 1.63% at the beginning of the year.**
- **As a silver lining, savers now have more options to earn income from savings.**

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The Markets in September 2022

Another month gone from the calendar, another month of declines for major market indices. In September, the Dow Jones Industrial average dropped 8.8%, the S&P 500 index lost 9.3%, and the Nasdaq fell 10.5%. All of these indices have now entered—or re-entered—bear market territory, down more than 20% from the last market high. Year-to-date, this has been the worst annual performance since 2008, even including the pandemic in 2020!

Normally, markets like these offer some sort of safe haven in other assets, but this year has proved incredibly difficult to find them. The Bloomberg U.S. Aggregate Bond Index is down more than 16% this year to date, its worst year on record going back to 1976. Gold, historically seen as a haven from inflation, is also down 8.7% in 2022. Arguably, the only safe asset has been cash, and even cash is at risk of being eaten alive by inflation.

On the positive side, U.S. consumer sentiment inched higher in September, but uncertainty runs high. The University of Michigan's consumer sentiment index rose to 59.5 in September, up from a reading of 50.0 in June but down from 72.8 a year ago. However, investors still expect another shoe to drop on the markets. Bearish sentiment, or expectations that stock prices will fall over the next six months, rose to its highest level since March 2009 in a recent poll from the American Association of Individual Investors. Markets often climb 'walls of worry', so as a contrarian, I see this as a long-term positive, but it's going to be a volatile fourth quarter.

Equity and bond investors alike have had a rough year so far in highly unusual, highly correlated negative markets.

The Look Ahead

Have we come too far, too fast on interest rates? No one truly knows yet, but it's clear that higher rates will now exert a significant drag on the economy. The 10-year U.S. Treasury yield briefly touched 4% in the week leading up to quarter end before falling back to 3.83% at Sept 30. This is up from 1.63% at the beginning of the year.

Mortgage rates have also risen to

their highest levels in more than 15 years. By September's end, the average rate on a 30-year fixed mortgage was 6.7%, according to Freddie Mac—up from 3.01% a year ago. Obviously, mortgage rates have a major influence on consumer housing decisions.

The upside of all these rate increases is that savers now have more options to earn income from savings. For conservative investors, look at short-term Treasuries for yield. For more risk tolerant investors, consider beaten-down dividend stocks.

Disclaimers:

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