Q4 2022 Market Update

By Matthew Gaude & Shawn McGuire

If you feel like you have been through 12 rounds with Mike Tyson, we completely understand. That's because Federal Reserve Chairman Jay Powell just threw another roundhouse at all of us!

Specifically, he raised interest rates by 75 basis points for the third time in a row in September. Powell also said the Fed would keep shrinking its enormous portfolio of bonds. Plus, he strongly suggested the Fed would hike rates even further later this year and next.

We haven't seen a rising rate cycle this aggressive in decades—nor have we seen inflation this high in decades. That creates all kinds of new challenges for investors like us. But it also opens up a world of opportunities for people who position their portfolios properly.

Prepare for more economic pain…

That was the message from Federal Reserve Chairman Jerome Powell on the afternoon of Wednesday, September 21.

He reiterated that the central bank is strongly committed to bringing inflation back down to its 2% goal. Powell said the Fed is purposefully moving interest rates to a level it believes will weigh on inflation growth. But he stated with the adjustment that interest rates are at the lowest end of the range where it would consider pausing hikes.

Last week the markets continued their decline, with most markets either approaching or making new lows for the year. Here is a headline from The Wall Street Journal:

Dow Drops to Lowest Level of 2022 as Growth Fears Roil Markets

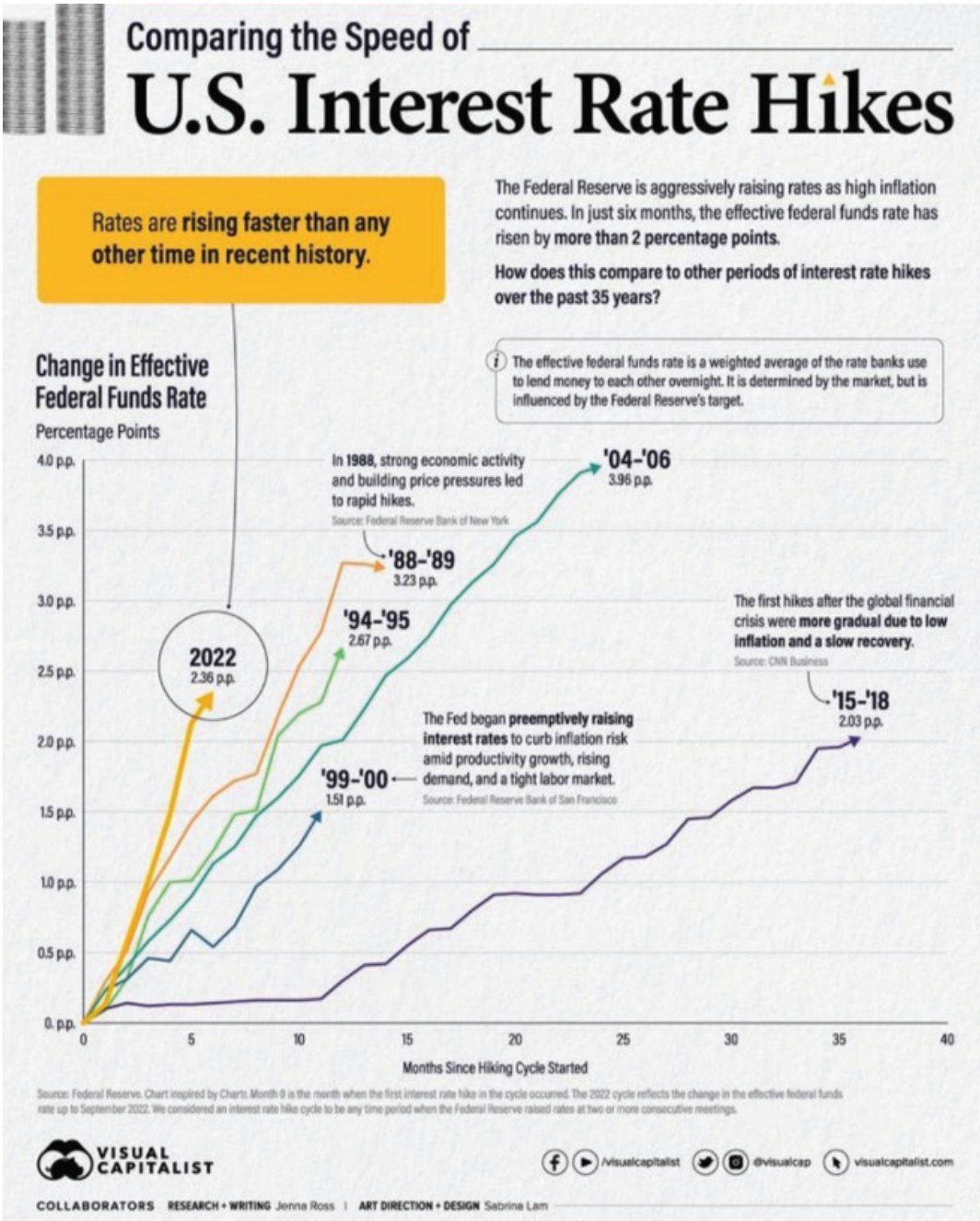
Investors, mulling stubbornly high inflation and unnerved by Russia's attempts to escalate the Ukraine war, flee for the exits

The central bank Fed chairman Jay Powell noted that activity in the housing sector has weakened significantly due to rising mortgage rates. Powell also said job growth is starting to cool with the number of quits falling and job openings starting to decline. Yet policymakers want to see broader trends develop in these two areas, balancing out the supply and demand outlooks.

Powell stated that he wished there were a painless way to accomplish these objectives. He noted a lack of action now will lead to a worse outcome later. So the Fed remains intent on getting the real federal-funds rate back to positive territory and out of the current negative level.

In its two-day meeting, the interest-rate-setting Federal Open Market Committee (FOMC) raised the federal-funds rate by another 0.75%, similar to the decisions made in June and July. This increased interest rates to a new range of 3.00% to 3.25%. And according to the FOMC, this will be appropriate for additional raises going forward, given the employment and economic pictures.

Now, look at the pace of rate hikes during this cycle compared with prior ones:



As part of its quarterly Summary of Economic Projections (SEP) release, the central bank raised its outlook for interest rates once more. Policymakers forecast rates will end the year at around 4.4%, compared with their June forecast of 3.4%.

For 2023, the Fed guided for interest rates of 4.6% compared with the prior 3.8% projection. And it forecast interest rates at 3.9% in 2024 compared with the previous guidance of 3.4%. Those changes compare to increases of 1% and 0.6%, respectively, in the June SEP. For 2025, the Fed anticipates interest rates of 2.9%.

The FOMC left its projection for longer-run interest rates unchanged at 2.5%. It's an important number to watch because that's the equivalent of a neutral stance on rates (where they neither harm nor help the economy).

Percent

Variable	Median[1]				
	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8
June projection	1.7	1.7	1.9		1.8
Unemployment rate	3.8	4.4	4.4	4.3	4.0
June projection	3.7	3.9	4.1		4.0
PCE inflation	5.4	2.8	2.3	2.0	2.0
June projection	5.2	2.6	2.2		2.0
Core PCE inflation[4]	4.5	3.1	2.3	2.1	
June projection	4.3	2.7	2.3		
Memo: Projected appropriate policy path					
Federal funds rate	4.4	4.6	3.9	2.9	2.5
June projection	3.4	3.8	3.4		2.5

Source: Federal Reserve

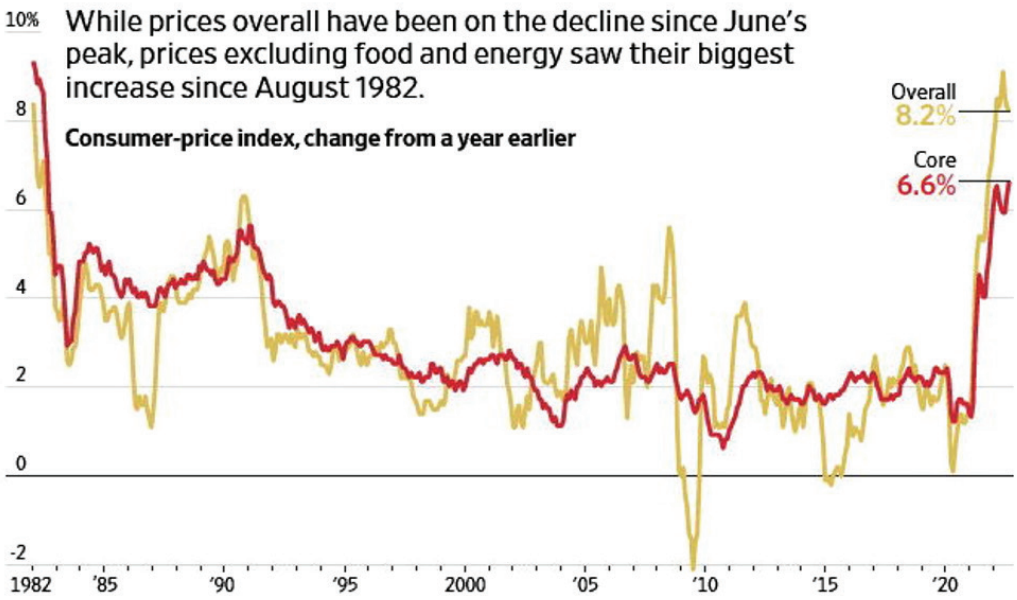
Based on that guidance, policymakers have now achieved another near-term goal of getting interest rates above the neutral level so they can begin to weigh on inflation growth. The implication is that the Fed will have two more meetings, in November and December, to raise rates by another 1.25%. That means a rate increase of 0.75% is likely in November, with a 0.50% hike in December.

Federal Reserve officials now expect economic growth for this year and next to run well below trend. The group lowered its 2022 economic-growth forecast from 1.7% to 0.2%, which is a big drop in economic growth. For 2023, they lowered their prior expectation from 1.7% to 1.2%. Powell has said this will be necessary for inflation growth to slow and for the central bank to even consider easing up on rate increases.

The central bank expects inflation growth to slow to its 2% objective by 2025. This forecast represents the fact that inflation could very well be with us for a longer period of time. The pace of future rate increases will depend upon the incoming data. But Powell noted that as rates continue to increase going forward, it will eventually be necessary to stop rate hikes and study the impact on the economy.

However, it's signaling that we're beginning to see positive developments in terms of the inflation outlook. The Fed expects to raise interest rates three more times—twice at the two meetings left this year and then once more next year. After that, the central bank anticipates that it will begin to start cutting rates in 2024 and 2025 as the economic growth and inflation outlooks improve.

And until investors feel more certain about the terminal interest rate—where the Fed ends its rate-hiking cycle—the S&P 500's swings will be driven by headlines around inflation and the policy outlook.



Inflation growth isn't following the Federal Reserve's directions...

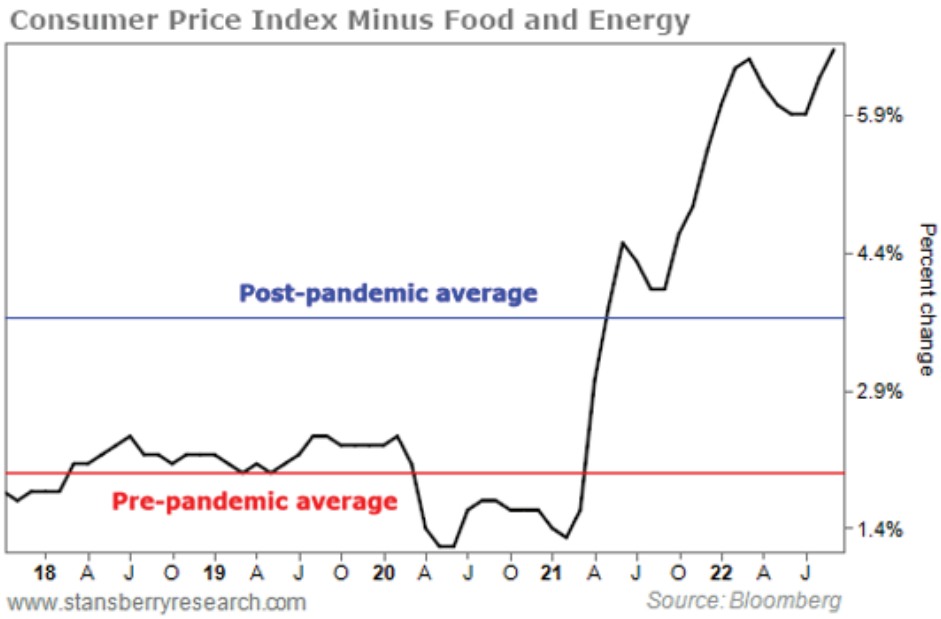
On Thursday, October 14th, hotter-than-expected inflation metrics for September surprised Wall Street. Investors and money managers had anticipated that a steady decline in energy prices and easing food costs would lead the way for a quick deceleration in inflation.

The U.S. Bureau of Labor Statistics' (BLS) Consumer Price Index (CPI) data for September rose 8.2% year over year (YOY) compared with Wall Street's expectation for an 8.1% increase and the prior month's 8.2% gain.

The lack of change all but assures the Federal Reserve will raise interest rates by another 0.75% when it meets again on November 1 and November 2.

We must remember that inflation doesn't disappear overnight. After all, it took 26 months to get here...it will take at least another 12 months before we see a meaningful slowdown in cost growth. Central bank policymakers have told us they want to see interest rates around the 4.50% to 4.75% level before they consider pausing hikes. There was nothing in the CPI numbers to change that missive.

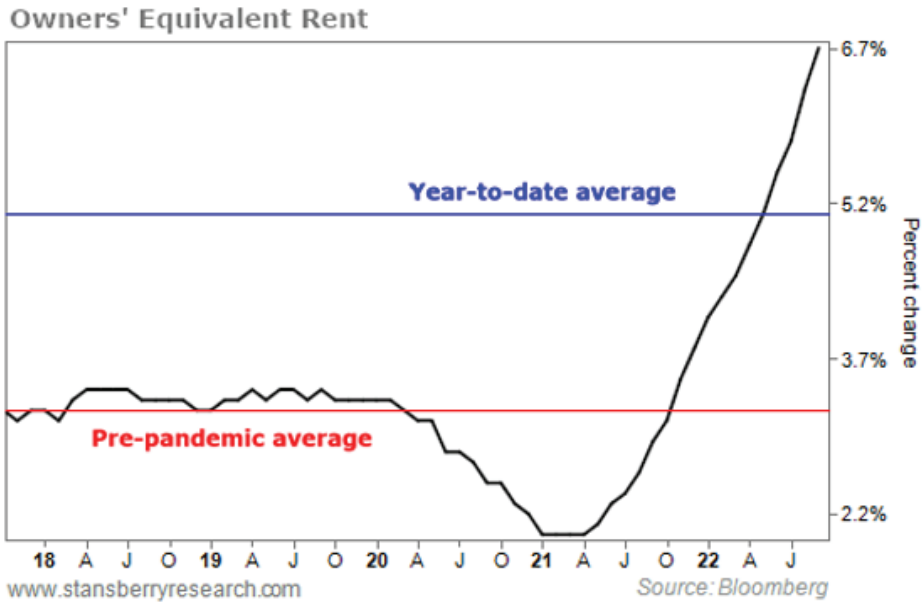
On a core basis (Consumer Price Index minus food and energy), the CPI rose 6.6% year over year compared with the expectation for a 6.5% increase and August's 6.3% gain.



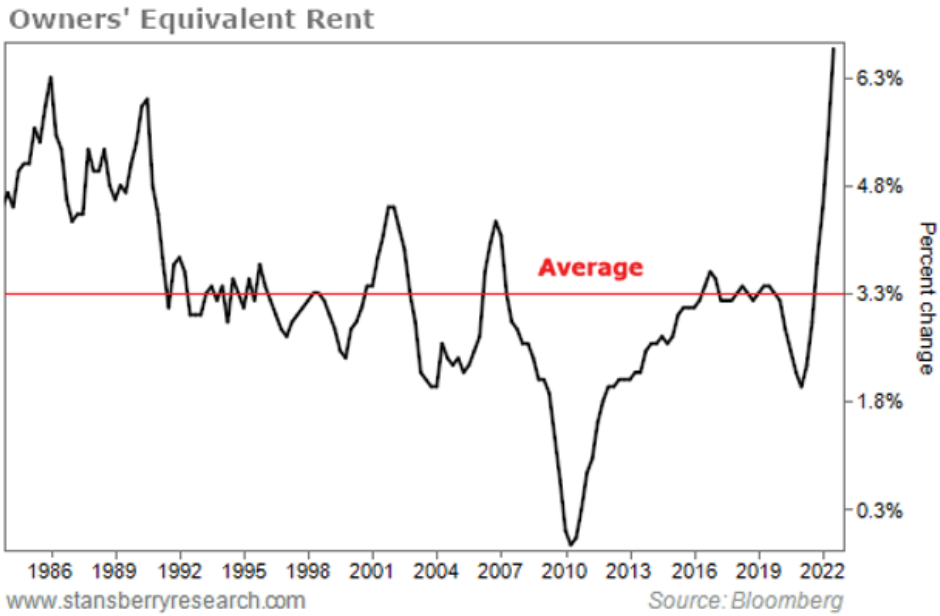
The core numbers are a bit concerning. And it has risen despite the rate hikes. That's a troubling sign for the Fed because it's likely a signal consumers are becoming more accepting of price increases (albeit unwillingly).

Owners' equivalent rent (OER) contributed the most to the high core numbers. It's the amount of money an owner would pay in rent to live in the same home. It's important because shelter accounts for 42% of the CPI, while owners' equivalent rent makes up about 24%.

Owners' equivalent rent rose 6.7% in September compared with the 6.3% jump in August. This was the highest growth on record, with the data going back to 1983. Here's what the numbers look like for the last two years:



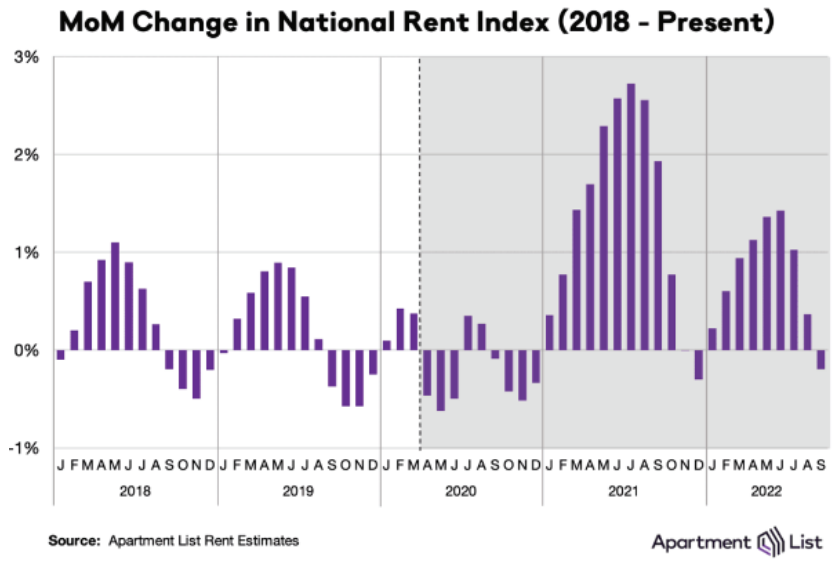
And here's a historical perspective:



So, despite any gains made in other areas (like, say, gasoline or car prices), rent underpinned overall inflation growth. And until that changes, the Fed will do whatever it can to lower costs. In other words, the central bank needs to kill housing prices. And the number-one tool for accomplishing the task is raising interest rates.

According to the U.S. Census Bureau, the median single-family home price is down 6.3% from the July peak, but it's still up 8% year over year. So the trend is going to take some time to play out. While increasing interest rates will weigh on housing affordability and prices, a substantial change won't happen overnight.

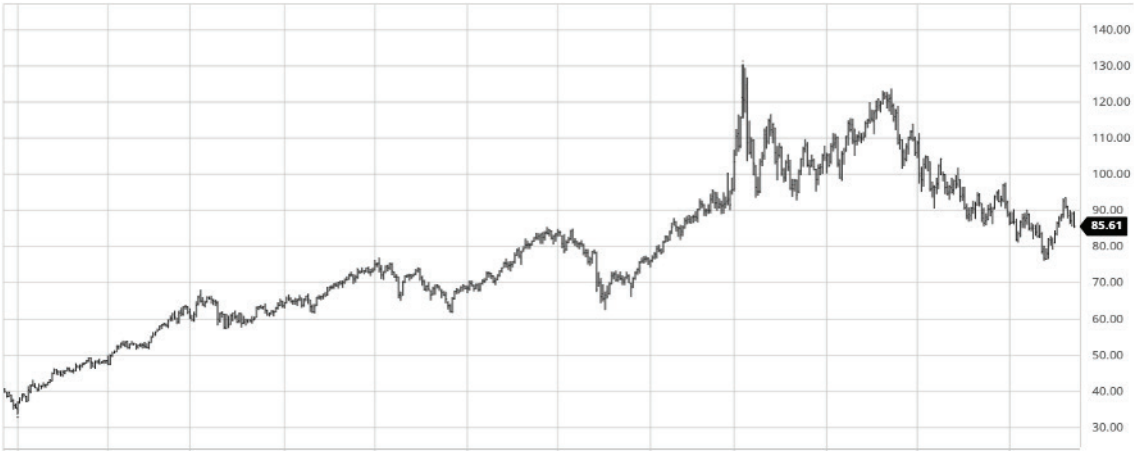
However, we are starting to get some good news regarding rents. We saw U.S. rents fall 0.2% in September, the first decline this year.



The rate-setting Federal Open Market Committee next meets on November 1 and November 2. Policymakers have said they want to see interest rates reach 4.25% to 4.50% by year-end. And as we said earlier, they're looking for another increase to the 4.50% to 4.75% range early next year before they consider pausing rate hikes.

But wait. Haven't the interest-rate increases this year shown any signs of slowing the economy and bringing inflation down? Also, isn't the Federal Reserve looking at the economy in the rearview mirror instead of looking at real-time data since these economic reports are from the previous month? We believe there is a growing chance that inflation and interest rates are peaking. Here are some areas in the economy that we have seen decline.

Crude oil is down 40% from March 2022:



Soft commodities and energy prices have moved broadly lower in recent months (lumber, wheat, soybeans, grain, etc.). As of last week, the S&P GSCI Commodity Index is down by about 30% from its March 2022 peak:

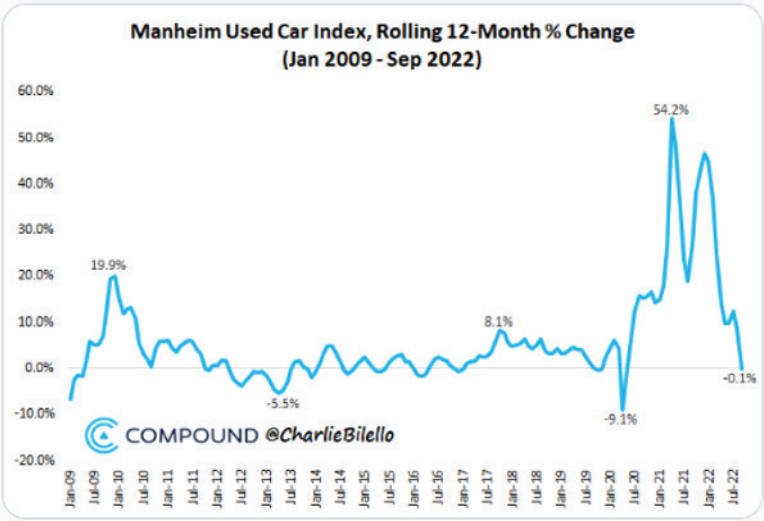
Commodity data is through September 30, 2022, while the change since 6/9/2022 represents the top in most commodity prices. We have seen energy and industrial metals decline the most in prices since 6/9/2022.

Commodity prices
Bloomberg commodity index constituents

Bloomberg Commodity Index			
Constituents	Current price level	YTD change	Change since 6/9/2022*
Sub-indices			
Energy	**$45.81**	**48.3%**	**-26.1%**
WTI crude oil	$84.53	17.9%	-30.4%
Natural gas	$0.29	85.1%	-25.0%
Brent crude	$459.25	30.9%	-24.3%
Low sulphur gas oil	$296.33	70.4%	-22.3%
RBOB gasoline	$423.18	30.5%	-30.9%
ULS diesel	$4.89	35.2%	-11.7%
Grains	**$49.30**	**17.2%**	**-12.4%**
Corn	$13.76	21.4%	-7.1%
Soybeans	$75.78	17.4%	-21.1%
Soybean meal	$775.95	8.1%	0.2%
Wheat	$45.81	12.4%	-16.9%
Soybean oil	$94.26	25.5%	-15.5%
HRW wheat	$130.02	7.3%	-22.3%
Industrial metals	**$143.44**	**-17.0%**	**-22.1%**
Copper	$305.35	-24.3%	-22.6%
Aluminum	$30.47	-23.5%	-21.7%
Zinc	$96.19	-12.9%	-18.5%
Nickel	$200.98	1.8%	-25.1%
Precious metals	**$473.06**	**-10.9%**	**-10.5%**
Gold	$180.72	-10.2%	-10.8%
Silver	$169.75	-19.8%	-13.7%
Softs	**$47.18**	**-1.7%**	**-11.5%**
Sugar	$91.08	-3.0%	-7.6%
Coffee	$13.70	-0.4%	-3.9%
Cotton	$30.51	-8.6%	-31.4%
Livestock	**$21.98**	**-2.0%**	**-0.6%**
Live cattle	$54.50	-3.2%	-0.1%
Lean hogs	$3.96	0.1%	-3.3%

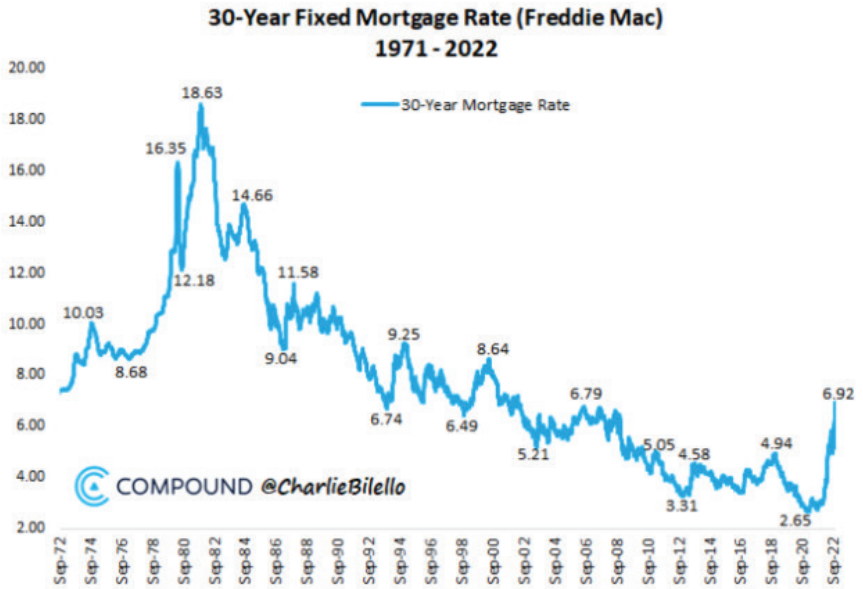
Source: Bloomberg, FactSet, J.P. Morgan Asset Management. All the Bloomberg subsectors and constituents are represented by the respective Bloomberg subindex except ULS Diesel, which is represented by the EIA composite for U.S. ULS diesel prices. *The Bloomberg Commodity Index peaked on June 9, 2022.
Guide to the Markets – U.S. Data are as of September 30, 2022.

Used car prices, which were a good tip-off to higher inflation in early 2021, are down 13% in 2022:

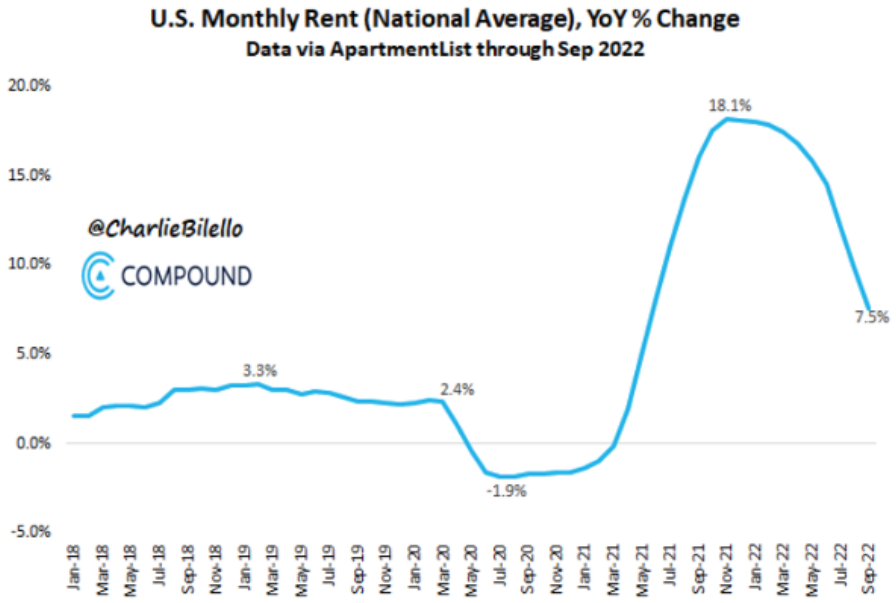


Home prices are down 6% from June 2022 and are now dropping more quickly in the face of mortgage rates more than doubling

Two years ago a 30-year fixed-rate mortgage was 2.90% and the average new U.S. home price was $405,000. Today the same mortgage is 6.70%, the highest level since mid-2007 and the largest spike in rates over the last year since 1981, and the average home price is nearly $525,000. As a result, a $25,000 increase in the down payment (assuming 20% down) is required and monthly mortgage payments have doubled from $1,345 to $2,700.



Rents in September 2022 exhibited the first decline of the year, and the year-over-year percentage increase is at the lowest level since May 2021. The year-over-year increase moved down to 7.5%.



We have started to see areas of the economy start to slow down and decline, however, it is going to take several months, possibly starting at the beginning of 2023, for the data to start showing up in the monthly inflation reports.

Doug Kass of Seabreeze Partners Hedge Fund mentioned the following in his client newsletter, which correlates well with our current thoughts on the market:

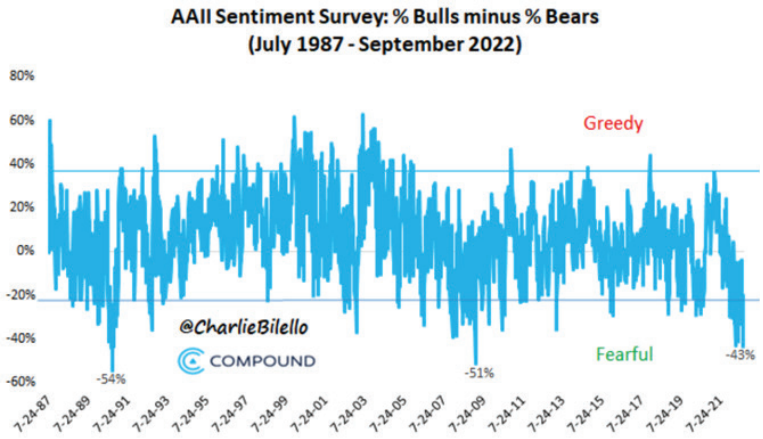
Minding Mr. Market: A Successful Test May Lie Ahead

- Swift and sizable moves in the global bond markets have contributed to the tension of lower stock and bond prices and to fear—in a regime of heightened volatility.
- All roads lead to interest rates. We remain of the view that both inflation and bond yields have or are close to peaking.
- From my perch, the Fed is close to completing its tightening cycle—two more rate hikes—markets stop panicking when policymakers panic!
- The opportunity set and reward vs. risk have improved measurably with much lower asset prices and eroding investor sentiment.
- For those, like yourself, with an investing time frame measured in months/years and not days/weeks—both stocks and bonds appear attractive.
- Today, with market momentum clearly to the downside, the hardest trade is to buy.
- Going forward, bad news may be good news.

"A strategic inflection point is a time in the life of business when its fundamentals are about to change, that change can mean an opportunity to rise to new heights." — Andrew S. Grove, Only The Paranoid Survive: Lessons from The CEO of Intel Corporation

In both bonds and equities, 2022 has been one for the record books—an unmitigated disaster and one of the worst performance years in history.

Not surprisingly, investor sentiment is at multi-decade lows. In the past I have highlighted record bears in the American Association of Individual Investors (AAII) survey, the CNN Fear & Greed Index, high mutual fund cash positions, deleveraging of hedge funds, etc.



Bears outnumbered bulls by 43% in last week's AAII sentiment survey. With data going back to 1987, the only other times we've seen sentiment this bearish…

1) October 1990 (-20% bear market that bottomed in October 1990 with recession in 1990-1991)
2) March 2009 (week of the lows)

Bull Markets Are Borne Out of Bad News

We continue to judge the future by the past as history is an instructive teacher. At times it is a vast warning system, and at other times, it is a good forecasting tool for better times.

We want to repeat that while investment vision is always 20/20 when viewed in the rearview mirror, stocks discount the future (often well in advance of a "turn" in the real economy). As such, bull markets are often the outgrowth and borne out of bad news (examples include March 2009, December 2018, and April 2020), while bear markets are often the outgrowth and borne out of good news (examples include early 2000, August 2007, and December 2021).

So, we (unemotionally) look to history as a signpost that there may be more fruitful market days ahead:

*At nine months, this is now the longest correction in the S&P Index (from peak to trough) since the 2008-2009 bear market (at the end of The Great Recession). The average bear market since 1929 has been about 14 months, but there has been much variation around that number.

(The 2020 COVID bear market was less than two months, and the 2000-2002 Dot.com bear market lasted 31 months.)

@CharlieBilello	S&P 500 Corrections >5% since March 2009 Low				
Correction Period	# Days	S&P High	S&P Low	% Decline	"Stocks Fall On…"
2022: Jan 4 - Oct 13	282	4819	3492	-27.5%	Inflation, Rising Rates/Fed Tighening, Russia/Ukraine War, Recession Fears
2021: Nov 22 - Dec 3	11	4744	4495	-5.2%	Covid Omicron Variant, Fed Taper Fears
2021: Sep 2 - Oct 4	32	4546	4279	-5.9%	China Contagion Fears, Fed Taper Fears, Covid Delta Variant
2021: Feb 16 - Mar 4	16	3950	3723	-5.7%	Inflation Fears, Rising Rates
2020: Sep 2 - Sep 24	22	3588	3209	-10.6%	Coronavirus, No New Stimulus Deal, Election Fears
2020: Feb 19 - Mar 23	33	3394	2192	-35.4%	Coronavirus, Global Depression Fears
2019: Jul 26 - Aug 5	10	3028	2822	-6.8%	Trade War, Tariffs, Yuan Devaluation, Recession Fears
2019: May 1 - Jun 3	33	2954	2729	-7.6%	Trade War, Tariffs, Inverted Yield Curve, Global Slowdown/Recession Fears
2018: Sep 21 - Dec 26	96	2941	2347	-20.2%	Rising Rates, China Slowdown, Trade War/Tariffs, Housing Slowdown
2018: Jan 26 - Feb 9	14	2873	2533	-11.8%	Inflation Fears, Rising Rates
2016: Aug 15 - Nov 4	81	2194	2084	-5.0%	Election Fears/Concerns/Jitters
2015/16: May 20 - Feb 11	267	2135	1810	-15.2%	Greece Default, China Stock Crash, EM Currencies, Falling Oil, North Korea
2014/15: Dec 29 - Feb 2	35	2094	1981	-5.4%	Falling Oil, Strong Dollar, Weak Earnings
2014: Dec 5 - Dec 16	11	2079	1973	-5.1%	Falling Oil, Strong Dollar
2014: Sep 19 - Oct 15	26	2019	1821	-9.8%	Ebola, Global Growth Fears, Falling Oil
2014: Jan 15 - Feb 5	21	1851	1738	-6.1%	Fed Taper, European Deflation Fears, EM Currency Turmoil
2013: May 22 - Jun 24	33	1687	1560	-7.5%	Fed Taper Fears
2012: Sep 14 - Nov 16	63	1475	1343	-8.9%	Fiscal Cliff Concerns, Obama's Re-Election
2012: Apr 2 - Jun 4	63	1422	1267	-10.9%	Europe's Debt Crisis
2011: May 2 - Oct 4	155	1371	1075	-21.6%	Europe's Debt Crisis, Double-Dip Recession Fears, US Debt Downgrade
2011: Feb 18 - Mar 16	26	1344	1249	-7.1%	Libyan Civil War, Japan Earthquake/Nuclear Disaster
2010: Apr 26 - Jul 1	66	1220	1011	-17.1%	Europe's Debt Crisis, Flash Crash, Growth Concerns
2010: Jan 19 - Feb 5	17	1150	1045	-9.2%	China's Lending Curbs, Obama Bank Regulation Plan
2009: Oct 21 - Nov 2	12	1101	1029	-6.5%	Worries About The Recovery
2009: Sep 23 - Oct 2	9	1080	1020	-5.6%	Worries About The Recovery
2009: Jun 11 - Jul 7	26	956	869	-9.1%	World Bank Neg Growth Forecast; Fears Market Is Ahead Of Recovery
2009: May 8 - 15	7	930	879	-5.5%	Worries That Market Has Gotten Ahead Of Itself
Median	**26**			**-7.6%**	COMPOUND

Through October 14, 2022 (198 trading days), the S&P has had the sixth worst start in history. Years in which the S&P 500 was down more than 2022 at this point in time (198 trading days)...

- 1931 (Great Depression)
- 2008 (Global Financial Crisis/Recession)
- 1937 (Recession) 2002 (Bursting of dot-com bubble/Recession in 2001)
- 1974 (High Inflation/Recession)

S&P 500: Worst Performance through 198 Trading Days (1928 - 2022)

Rank	Year	Price Return: First 198 Trading Days	Price Return: Day 199 to Year-End	Price Return: Full Calendar Year	Price Return: Next Calendar Year
1	1931	-34.2%	-19.6%	-47.1%	-14.8%
2	2008	-31.7%	-11.2%	-39.3%	23.5%
3	1937	-31.1%	-10.9%	-38.6%	24.5%
4	2002	-26.7%	4.6%	-23.4%	26.4%
5	1974	-25.4%	-5.7%	-29.7%	30.9%
6	2022	-24.8%	?	?	?
7	1962	-20.3%	10.6%	-11.8%	18.9%
8	2001	-19.1%	7.4%	-13.0%	-23.4%
9	1966	-16.7%	4.3%	-13.1%	20.1%
10	1930	-16.5%	-14.3%	-28.5%	-47.1%
11	1990	-16.4%	11.3%	-7.0%	25.7%
12	1946	-15.3%	4.0%	-11.9%	0.0%
13	1940	-15.1%	0.0%	-15.1%	-17.9%
14	1977	-13.0%	1.8%	-11.5%	1.1%
15	1957	-12.3%	-2.3%	-14.3%	37.4%

COMPOUND @CharlieBilello (As of 10/14/22)

*In 2022, unlike in prior years, bonds have not provided a buffer to total return. In fact, they have likely contributed to the recent panic selling of many asset classes. Starting at historically low (near zero) yields, there has been no hiding place in fixed income as the bond market has provided no total return support in 2022. 60/40 portfolios have been decimated, as fixed income is on pace for its worst year in history with a loss of approximately -18.1%:

US 10-Year Treasury Bond: Total Returns (1928 - 2022)

Year	Return	Year	Return	Year	Return	Year	Return	Year	Return
1928	0.8%	1947	0.9%	1966	2.9%	1985	25.7%	2004	4.5%
1929	4.2%	1948	2.0%	1967	-1.6%	1986	24.3%	2005	2.9%
1930	4.5%	1949	4.7%	1968	3.3%	1987	-5.0%	2006	2.0%
1931	-2.6%	1950	0.4%	1969	-5.0%	1988	8.2%	2007	10.2%
1932	8.8%	1951	-0.3%	1970	16.8%	1989	17.7%	2008	20.1%
1933	1.9%	1952	2.3%	1971	9.8%	1990	6.2%	2009	-11.1%
1934	8.0%	1953	4.1%	1972	2.8%	1991	15.0%	2010	8.5%
1935	4.5%	1954	3.3%	1973	3.7%	1992	9.4%	2011	16.0%
1936	5.0%	1955	-1.3%	1974	2.0%	1993	14.2%	2012	3.0%
1937	1.4%	1956	-2.3%	1975	3.6%	1994	-8.0%	2013	-9.1%
1938	4.2%	1957	6.8%	1976	16.0%	1995	23.5%	2014	10.7%
1939	4.4%	1958	-2.1%	1977	1.3%	1996	1.4%	2015	1.3%
1940	5.4%	1959	-2.6%	1978	-0.8%	1997	9.9%	2016	0.7%
1941	-2.0%	1960	11.6%	1979	0.7%	1998	14.9%	2017	2.8%
1942	2.3%	1961	2.1%	1980	-3.0%	1999	-8.3%	2018	0.0%
1943	2.5%	1962	5.7%	1981	8.2%	2000	16.7%	2019	9.6%
1944	2.6%	1963	1.7%	1982	32.8%	2001	5.6%	2020	11.3%
1945	3.8%	1964	3.7%	1983	3.2%	2002	15.1%	2021	-4.4%
1946	3.1%	1965	0.7%	1984	13.7%	2003	0.4%	2022*	-18.1%

COMPOUND *As of 10/14/22 @CharlieBilello

With total return data going back to 1928…
Number of years in which both the S&P 500 and 10-Year Treasury Bond were down?
5 (in 1931, 1941, 1969, 2018, 2022)
Number of years in which both the S&P 500 and 10-Year Treasury Bond were down more than 10%?
1 (in 2022)

S&P 500, US 10-Year Treasury, and 60/40 Portfolio (Total Returns, 1928 - 2022)

Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40	Year	S&P	10-Yr	60/40
1928	43.8%	0.8%	26.6%	1947	5.2%	0.9%	3.5%	1966	-10.0%	2.9%	-4.8%	1985	31.2%	25.7%	29.0%	2004	10.9%	4.5%	8.2%
1929	-8.3%	4.2%	-3.3%	1948	5.7%	2.0%	4.2%	1967	23.8%	-1.6%	13.6%	1986	18.5%	24.3%	20.8%	2005	4.9%	2.9%	4.0%
1930	-25.1%	4.5%	-13.3%	1949	18.3%	4.7%	12.8%	1968	10.8%	3.3%	7.8%	1987	5.8%	-5.0%	1.5%	2006	15.8%	2.0%	10.2%
1931	-43.8%	-2.6%	-27.3%	1950	30.8%	0.4%	18.7%	1969	-8.2%	-5.0%	-7.0%	1988	16.6%	8.2%	13.2%	2007	5.5%	10.2%	7.4%
1932	-8.6%	8.8%	-1.7%	1951	23.7%	-0.3%	14.1%	1970	3.6%	16.8%	8.8%	1989	31.7%	17.7%	26.0%	2008	-37.0%	20.1%	-13.9%
1933	50.0%	1.9%	30.7%	1952	18.2%	2.3%	11.8%	1971	14.2%	9.8%	12.4%	1990	-3.1%	6.2%	0.7%	2009	26.5%	-11.1%	11.1%
1934	-1.2%	8.0%	2.5%	1953	-1.2%	4.1%	0.9%	1972	18.8%	2.8%	12.4%	1991	30.5%	15.0%	24.1%	2010	15.1%	8.5%	12.3%
1935	46.7%	4.5%	29.8%	1954	52.6%	3.3%	32.9%	1973	-14.3%	3.7%	-7.1%	1992	7.6%	9.4%	8.2%	2011	2.1%	16.0%	7.7%
1936	31.9%	5.0%	21.2%	1955	32.6%	-1.3%	19.0%	1974	-25.9%	2.0%	-14.7%	1993	10.1%	14.2%	11.7%	2012	16.0%	3.0%	10.7%
1937	-35.3%	1.4%	-20.7%	1956	7.4%	-2.3%	3.6%	1975	37.0%	3.6%	23.6%	1994	1.3%	-8.0%	-2.4%	2013	32.4%	-9.1%	15.6%
1938	29.3%	4.2%	19.3%	1957	-10.5%	6.8%	-3.6%	1976	23.8%	16.0%	20.7%	1995	37.6%	23.5%	31.7%	2014	13.7%	10.7%	12.4%
1939	-1.1%	4.4%	1.1%	1958	43.7%	-2.1%	25.4%	1977	-7.0%	1.3%	-3.7%	1996	23.0%	1.4%	14.2%	2015	1.4%	1.3%	1.3%
1940	-10.7%	5.4%	-4.2%	1959	12.1%	-2.6%	6.2%	1978	6.5%	-0.8%	3.6%	1997	33.4%	9.9%	23.8%	2016	12.0%	0.7%	7.3%
1941	-12.8%	-2.0%	-8.5%	1960	0.3%	11.6%	4.9%	1979	18.5%	0.7%	11.4%	1998	28.6%	14.9%	23.0%	2017	21.8%	2.8%	14.1%
1942	19.2%	2.3%	12.4%	1961	26.6%	2.1%	16.8%	1980	31.7%	-3.0%	17.8%	1999	21.0%	-8.3%	9.2%	2018	-4.4%	0.0%	-2.5%
1943	25.1%	2.5%	16.0%	1962	-8.8%	5.7%	-3.0%	1981	-4.7%	8.2%	0.5%	2000	-9.1%	16.7%	1.2%	2019	31.5%	9.6%	22.6%
1944	19.0%	2.6%	12.4%	1963	22.6%	1.7%	14.2%	1982	20.4%	32.8%	25.4%	2001	-11.9%	5.6%	-4.9%	2020	18.4%	11.3%	15.3%
1945	35.8%	3.8%	23.0%	1964	16.4%	3.7%	11.3%	1983	22.3%	3.2%	14.7%	2002	-22.1%	15.1%	-7.1%	2021	28.7%	-4.4%	15.3%
1946	-8.4%	3.1%	-3.8%	1965	12.4%	0.7%	7.7%	1984	6.1%	13.7%	9.2%	2003	28.7%	0.4%	17.2%	2022*	-23.9%	-18.1%	-21.6%

COMPOUND @CharlieBilello *As of 10/14/22

Bottom Line

While we fully recognize the policy mistakes that have been made by the Federal Reserve and the economic and market challenges that lie ahead, we see economic buffers (moderating inflation, a strong jobs market, excess savings, a cushion of unrealized equity/home gains), a strong banking system and the absence of levered and debt-heavy sectors (e.g., in mortgage and finance) that were present in previous economic downturns.

It is our central view that much has or is in the process of being discounted in sharply lower stock prices.

History teaches us that investment opportunities emerge out of instability, bad news, and excessively bearish investor sentiment. Fear, panic, and lower stock prices are the allies of the rational and opportunistic investor. We have seen this even exceed the bearish news and negative investor sentiment from 2008/2009.

We fully recognize that stock prices could continue lower over the short term—particularly given rising interest rates, economic and profit concerns, and the risks associated with market structure.

It is impossible to project a bottom for stock prices. Markets always have the ability to go down more than seems reasonable. Even so, current stock prices seem sufficiently depressed, that we believe that in a year or two, looking back in hindsight, current stock prices will look extremely low.

Market proverbs may give bad advice, with "never catch a falling knife" coming to mind. As we have seen in previous market cycles, "no one rings a bell at the bottom," a piece of advice contradicting the previous proverb. Bounces off the bottom (which we have seen several already this year) can be violent (and short-lived). Of course, we will not know for sure until we have the full benefit of hindsight. But waiting is like trying to bet on the horse after the race is over. The opportunity does not exist anymore. Prevailing prices in both equities and bonds are at attractive entry points in our judgment.

On October 16, 2008, during the darkest hours of the global financial crisis, billionaire investor Warren Buffett published an op-ed for The New York Times titled "Buy American. I Am."
This was a month after the housing market crash and the credit crunch resulted in the Lehman Brothers bankruptcy. The S&P 500 (^GSPC) had plummeted 23% since that event.

It was a message to America, reminding Americans that the country has had a long history of what seemed to be insurmountable crises but yet managed to come back. Economic activity has always returned and the stock market has always rebounded. Buffett has often reminded investors that big opportunities come infrequently…reach for a bucket, not a thimble.

We understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Successful investing is a marathon, not a sprint, and even extended bouts of volatility like we've experienced over the past six months are unlikely to alter a diversified approach set up to meet your long-term investment goals.

Therefore, it's critical that we have your financial plan up to date, as we've worked with you to establish a unique, personal allocation target based on your financial position, risk tolerance, and investment timeline.

Rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

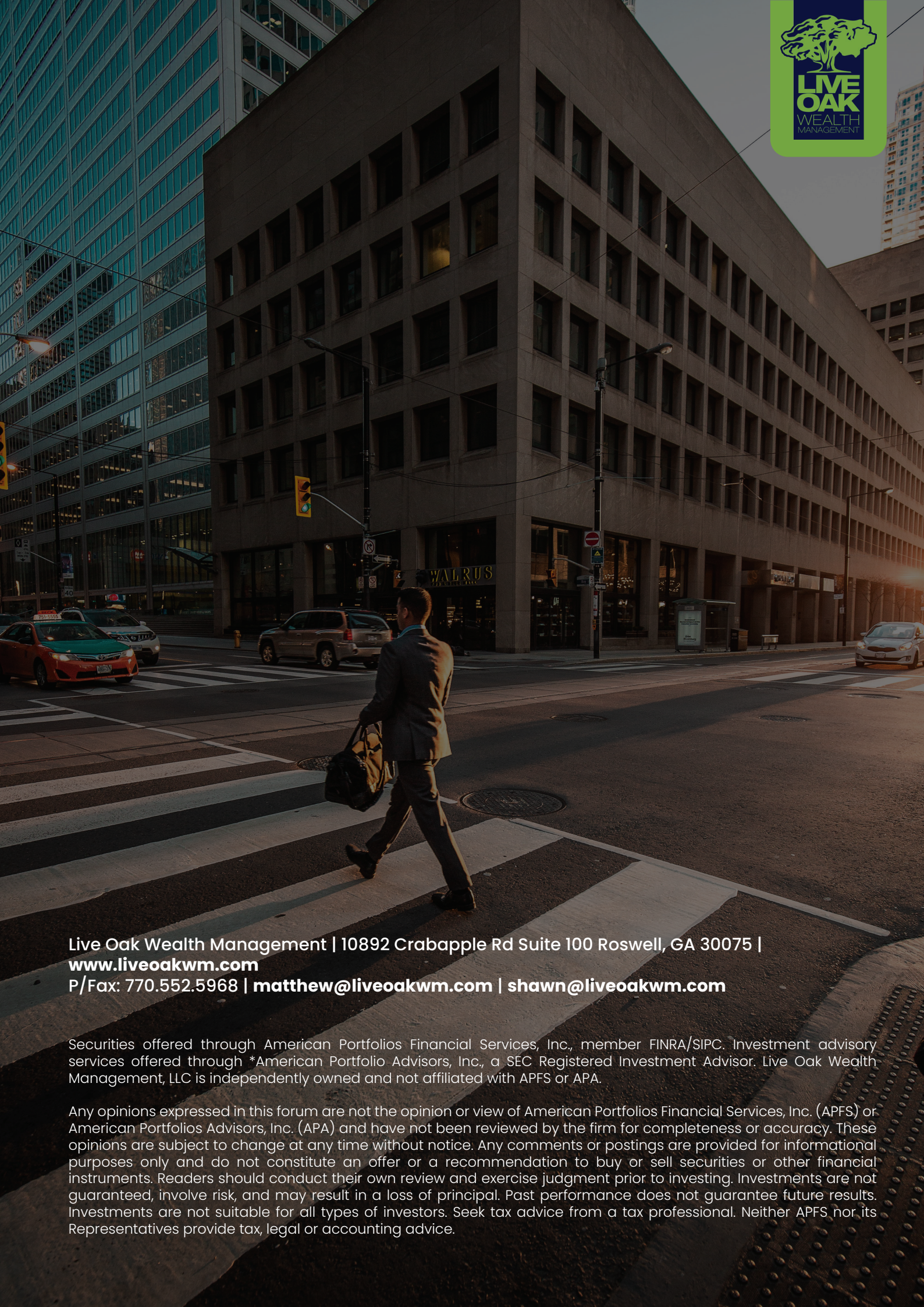
Please do not hesitate to contact us with any questions or comments, or to schedule a portfolio review by clicking here to access our calendars.

About Matthew

Matthew Gaude is an *investment advisor representative and the co-founder of Live Oak Wealth Management, a financial services firm in Roswell, Georgia. He serves the planning and investment needs of corporate employees, those approaching or in retirement, and 401(k) plan sponsors. Working first as a commodity broker and then as a Business Development Manager for a national broker-dealer in previous jobs, he has the insight and experience to help clients understand the complexities of the market and implement strategies to minimize risk. To learn more about Matthew, connect with him on LinkedIn or visit www.liveoakwm.com.

About Shawn

Shawn McGuire is a financial advisor and the co-founder of Live Oak Wealth Management, a financial services firm in Roswell, Georgia. He serves the planning and investment needs of corporate employees, those approaching or in retirement, and 401(k) plan sponsors. He has worked in financial services since 2002 in positions ranging from financial advisor to stock broker and portfolio manager. As a CERTIFIED FINANCIAL PLANNER™ professional, he is trained to help clients with virtually all their financial needs. To learn more about Shawn, connect with him on LinkedIn or visit www.liveoakwm.com.



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