

WAINWRIGHT INVESTMENT COUNSEL, LLC FINANCIAL MARKETS HIGHLIGHTS

Third Quarter 2022

The capital markets continued to be volatile during the third quarter due to the related threats of recession, severe inflation, spiking interest rates and the war in Ukraine with its far ranging implications. On the bright side, the worst of COVID has passed.

The S&P 500 Index of large and mega-capitalization stocks ended the quarter down 4.9%, having begun quite positively with a 9.2% July return, the result of a misconceived notion that the U.S. Federal Reserve (“Fed”) would be softer on interest rate increases. A poor August and September followed, resulting in the third consecutive losing quarter for the index. The Russell 2000 Index of small-capitalization stocks declined 2.2% during the quarter and the international MSCI EAFE and MSCI Emerging Markets Indexes returned -9.4% and -11.6%, respectively. Growth stocks outperformed value stocks, reversing a recent trend, though value stocks maintain a substantial lead for the year-to-date. Consumer discretionary and energy stocks were positive for the quarter, while all other sectors were negative.

The S&P 500 emerged from bear market territory temporarily, but reentered with vigor and closed the quarter 25% below its peak. Causes of bear markets differ but their emotional effects do not. When emotions run hot, historical context can be useful.

Since 1929 there have been close to 30 bear markets for the S&P 500. Several had losses of ~50% or more. Yet the S&P 500 has generated an average annual return of 10% since then. Through wars, depressions, pandemics, nuclear disasters and disco, those with fortitude stayed

invested and were the beneficiaries of Corporate America’s unparalleled ability to grow earnings, assets, and dividends. Since just 2000 there have been five bear markets: 2000-2002 (Tech Wreck), 2007-2009 (Great Financial Crisis), Q4 2018 (people forget this one), Q1 2020 (COVID), and lastly, the present one. Those who have stuck to the course have done just fine since 2000, too.

Bonds have generally provided a buffer during bad times for the stock market, and thus have been useful additions to many portfolios. **That is what is different this time.** Bonds have not provided any significant protection to portfolios because of the Fed’s emphatic efforts to quell spiking inflation by raising interest rates significantly, amongst other things. The Consumer Price Index rose +8.3% for the 12 months ended August, and the outlook is unclear as to the timing for inflation to decline sufficiently, allowing the Fed to pause its efforts.

Raising interest rates induces savings and inhibits credit-based investment, effectively slowing spending and easing price pressures. During both its July and September meetings the Fed’s Open Market Committee (“FOMC”) members agreed to raise the short-term Federal Funds rate by 0.75%. These followed a 0.75% rate hike in June and cumulative rate hikes of 0.75% during March and May. The short-term Fed Funds rate has increased from effectively zero to a range of 3.00% to 3.25% in six months. FOMC participants expect the Federal Funds rate to be in the range of 4.00% to 4.50% by year-end, per September projections.

Selected Index Returns (%) as of September 30, 2022 (Source: Morningstar Direct). 3, 5, 10 year returns are annualized.

	Jul.	Aug.	Sep.	QTR	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	9.22	-4.08	-9.21	-4.88	-23.87	-15.47	8.16	9.24	11.70
S&P 400	10.85	-3.10	-9.19	-2.46	-21.52	-15.25	6.01	5.82	10.04
Russell 2000	10.44	-2.05	-9.58	-2.19	-25.10	-23.50	4.29	3.55	8.55
Wilshire U.S. REIT Index	8.73	-5.90	-12.26	-10.23	-29.66	-17.60	-2.17	2.88	6.15
MSCI EAFE	4.98	-4.75	-9.35	-9.36	-27.09	-25.13	-1.83	-0.84	3.67
MSCI Emerging Markets	-0.25	0.42	-11.72	-11.57	-27.16	-28.11	-2.07	-1.81	1.05
Bloomberg U.S. Aggregate Bond	2.44	-2.83	-4.32	-4.75	-14.61	-14.60	-3.26	-0.27	0.89
Bloomberg High Yield	5.90	-2.30	-3.97	-0.65	-14.74	-14.14	-0.45	1.57	3.94

Additional information about Wainwright Investment Counsel, LLC is also available at www.adviserinfo.sec.gov and https://reports.adviserinfo.sec.gov/crs/crs_108711.pdf. The information herein was gathered from sources deemed to be reliable; however, no assurance is made as to the accuracy of the data or information. This information provided herein does not constitute an offer to sell or a solicitation of an offer to buy any securities and may not be used or relied upon in connection with any offer or sale of securities. The information herein reflects prevailing conditions and Wainwright’s judgments as of this date, all of which are subject to change without notice. **Past performance is never a guarantee of future investment results. Actual results may vary.**

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Rising interest rates have crushed bond markets. The Bloomberg U.S. Aggregate Bond Index returned -4.8% during the quarter and -14.6% for the year-to-date. The Index's returns have been reported since 1976, and this year's is the worst over that period. According to Edward McQuarrie, emeritus professor of business at Santa Clara University, as quoted by the New York Times on September 30, 2022, "You can safely say that through Tuesday, U.S. bond returns are the worst ever recorded."

An example may be helpful to some in explaining the connection between Fed monetary policy and bond market returns. Every month the U.S. Treasury issues two-year bonds, amongst other maturities. In December 2021, two-year bonds paid an annual coupon of less than 1%. At present, these bonds have dropped in price significantly so that they yield ~4%, the price the market demands to account for inflation. This phenomenon is roiling the U.S. bond market, but it is a boon for the U.S. Dollar as international investors are clamoring to buy relatively high yielding U.S. Treasury bonds. Year-to-date, the U.S. Dollar has appreciated more than 15% against the Euro and the Pound, for example.

Dollar strength has also helped lower the price of crude oil, as it trades in dollars. West Texas Intermediate ("WTI") Crude closed at \$77 a barrel at quarter-end, from high of \$124 in early March. In turn, this is reducing regular unleaded gas prices, currently around \$3.90, down from over \$5.00 in mid-June, based on the AAA national average. Declining energy and transportation costs help to ease overall inflationary pressures.

Gold prices slipped 8.0% during the quarter. Even the famous inflation hedge has not been a safe haven for investors.

The silver lining amidst the capital market selloff is that the outlook for future returns has improved, markedly in certain instances like bonds. Critical to long-term investment success is maintaining one's investment exposure, and holding a diversified portfolio with a thoughtful asset allocation is conducive to that end.

Should you have any questions or comments, or like to discuss your portfolio, please call us at 617-531-3100. Wishing you a pleasant fall.

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