MONTHLY MARKET UPDATE

November 2022

As we draw deeper into the final quarter of 2022, a number of investment truisms have been confirmed by this volatile, tough year. The short-term unpredictability of the stock market was once again illustrated this past month. The S&P 500® Index jumped 8.1% while the more concentrated and more value-oriented Dow Jones Industrial Average rose a remarkable 14.1%, its best month since 1976. Even with this welcome gain, at month-end the S&P remains down about 17.7% for the year, reminding us all too harshly of the truth in the saying that the stock market is a two-way street.

Several factors contributed to the October rally. As quarterly earnings reports came in it became evident that corporate profits were generally holding up well, despite the pressures of sustained inflation and higher interest rates. However, earnings expectations for 2023 have started to decline and may yet be overly optimistic. In their earnings calls some bellwether companies have pointed to rising industrial weaknesses. The most recent Purchasing Managers' Index (PMI) is flirting with 50, the dividing line between growth and contraction. Perversely, industrial weakness and faltering earnings are not necessarily a market negative since it would reflect a degree of success for the Fed's efforts to slow the economy. And once the lagging effect of higher rates hits and inflation subsides, the Fed can "pivot" to lower rates, most likely stoking a stock market rally. It's this sort of cause and effect which has made Fed watching a market obsession. Considering the damage wrought on stock valuations so far this year, it's no wonder that investors are looking for any positives from the Fed. Earlier 2022 rallies were driven by wishful thinking that the Fed would soon reverse course and lower rates. When this was quashed, the hope rotated from reversal to a pause in the raises. By October these hopes had degraded to prospects that the Fed would soon halt the 0.75% raises and perhaps temper the expected 0.50% rise in December. But at the Fed meeting on November 2, Fed Chairman Powell put even these thin hopes into question by stating "It is very premature to be thinking about pausing...we have a long way to go."

Looking behind the return numbers of October sheds some light onto the investment landscape. Results were highly variable by S&P sector, reflecting the consensus outlook for a weakening consumer with the Consumer Discretionary and Communication Services sectors gaining virtually nothing from the market's dramatic move. Meanwhile, the cyclical sectors of Energy, Industrials, and Financials were off and running with returns of 25.0%, 13.9%, and 12.0% respectively. But even within these gaining sectors were variances dependent on a company's market position, balance sheet, and business strategies.

The economic concerns were also reflected in the relative performance of the Russell 1000 Value Index (+10.25%) which was almost double the return of the Russell 1000 Growth Index (+5.84%). Smaller stocks (S&P 600 Index +12.37%) also outperformed, in part due to their heavier reliance on the domestic economy. Global players have had to deal with the continued strength of the U.S. dollar and troubled overseas economies. Europe is immersed in an energy crisis caused by the Ukraine war, a major factor in their double-digit inflationary woes. European Real GDP growth has hit zero in contrast with the continued strength in the U.S. with the most recent Real GDP report at 2.6%. It is hard to see Europe emerging from these troubles any time soon, creating headwinds for most large U.S. companies whose earnings are linked to Europe. China continues with its rolling lockdowns as a result of their government's zero-Covid policy which not only has dampened China's rate of growth but has continued to challenge global supply chains.

A slowdown in consumer demand could help squelch inflationary pressures caused by demand exceeding supply. One unwavering theme from the Fed has been the determination to keep rates elevated until inflation heads back to their stated 2% target. Another positive sign (not for job seekers alas) would be a reversal of the strong employment numbers, another factor that could give the Fed cause to consider halting or even reversing rate increases. With some ten million open jobs and almost two jobs for every qualified prospect, this seems like a long way off. While the Fed has maintained their wish to tamp down inflation without halting economic expansion, Chairman Powell has admitted that window is "narrowing." Expectations for a 2023 recession may seem dour, but once again, the forward-looking market could potentially absorb that reality without much additional damage.

The final cloud hanging over the markets is the uncertainty of the upcoming midterm elections. We are sympathetic to the political pundits who, somewhat cynically, point to the market benefits of a split government, creating Washington gridlock. But our assessment of past election cycles suggests that investment results are largely independent of election results. The independent Federal Reserve carries the heavy task of controlling U.S. inflation and is doing what it can. A steeply rising stock market with its wealth effect is not on the Fed's wish list. We have the feeling that for at least the next few quarters, the Fed will likely get its wish.

MONTHLY MARKET UPDATE

As of October 31, 2022

U.S. EQUITIES (%)

	October	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	14.1	-8.4	-6.7	8.8	9.3	12.2
S&P 500	8.1	-17.7	-14.6	10.2	10.4	12.8
Russell 1000	8.0	-18.5	-16.4	10.0	10.2	12.7
Russell 1000 Value	10.3	-9.3	-7.0	7.3	7.2	10.3
Russell 1000 Growth	5.8	-26.6	-24.6	11.7	12.6	14.7
Russell Midcap	8.9	-17.5	-17.2	7.8	7.9	11.4
Russell 2000	11.0	-16.9	-18.5	7.0	5.6	9.9

U.S. EQUITY CHARACTERISTICS - S&P 500

	October	2021
Price/Earnings Ratio	19.6	25.5
Weighted Avg. Market Cap ($B)	474.7	674.3
Dividend Yield (%)	1.7	1.2

U.S. EQUITY SECTORS - S&P 500 (%)

	October	YTD	Weight
Communication Services	0.1	-39.0	7.5
Consumer Discretionary	0.2	-29.7	10.9
Consumer Staples	9.0	-3.9	6.9
Energy	25.0	68.6	5.4
Financials	12.0	-11.8	11.4
Health Care	9.7	-4.6	15.3
Industrials	13.9	-9.7	8.3
Information Technology	7.8	-26.1	26.3
Materials	9.0	-16.9	2.5
Real Estate	2.0	-27.4	2.6
Utilities	2.1	-4.6	3.0

INTERNATIONAL EQUITIES (%)

	October	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	6.0	-21.1	-20.0	4.8	5.2	8.0
ACWI ex USA	3.0	-24.3	-24.7	-1.7	-0.6	3.3
MSCI EAFE	5.4	-23.2	-23.0	-1.3	-0.1	4.1
Emerging Markets	-3.1	-29.4	-31.0	-4.4	-3.1	0.8
China	-16.8	-42.8	-47.9	-13.8	-9.7	-0.1
Japan	3.0	-24.2	-24.7	-3.2	-0.9	5.3
Germany	9.3	-31.8	-32.7	-6.0	-5.3	2.0
United Kingdom	6.0	-13.7	-12.4	-0.7	0.0	2.4
India	2.6	-7.4	-6.9	10.9	7.0	8.0

KEY ASSET PRICES

	October	2021
EUR/USD	0.99	1.13
CAD/USD	1.36	1.28
JPY/USD	147.68	115.17
GBP/USD	1.16	1.35
Bitcoin ($)	20,256.8	47,413.3
Gold ($/oz)	1,638.0	1,816.0
Crude Oil (WTI) ($/bbl)	88.2	77.0

FIXED INCOME (%)

	October	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	-1.4	-14.1	-13.9	-3.5	-0.5	0.4
Municipal	-0.8	-12.9	-12.0	-2.2	0.4	1.7
U.S. Aggregate Bond	-1.3	-15.7	-15.7	-3.8	-0.5	0.7
Investment Grade Corporate	-1.0	-18.9	-18.9	-4.1	-0.3	1.4
High Yield	2.6	-12.5	-11.8	0.3	2.0	4.1

U.S. TREASURY YIELDS (%)

	October	2021
3-Month	4.2	0.1
6-Month	4.6	0.2
2-Year	4.5	0.7
5-Year	4.3	1.3
10-Year	4.1	1.5
30-Year	4.2	1.9

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The Dow Jones Industrial Average® (The Dow®), is a price-weighted measure of 30 U.S. blue-chip companies. The index covers all industries except transportation and utilities.

The S&P 500® Index is an unmanaged index of large companies and is widely regarded as a standard for measuring large-cap and mid-cap U.S. stock-market performance. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

The S&P 600® is an unmanaged index of 600 small-sized companies. Results assume the reinvestment of all capital gain and dividend distributions. An investment cannot be made directly into an index.

The Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index, which represents approximately 89% of the total market capitalization of the Russell 3000 Index.

The Russell 1000® Growth Index is designed to track those securities within the broader Russell 1000 Index that FTSE Russell has determined exhibit growth characteristics.

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The MSCI ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets countries (excluding the US) and 23 Emerging Markets countries. With 1,843 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

The MSCI EAFE (Europe, Australasia & Far East) Index is a free-float adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada.

Emerging Markets - MSCI Emerging Market Index – captures large and mid cap representation across 24 Emerging Markets (EM) countries. With 1,138 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

China - MSCI China Index - captures large and mid cap representation across China A shares, H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs).

Japan - MSCI Japan Index - is designed to measure the performance of the large and mid cap segments of the Japanese market.

Germany - MSCI Germany Index - is designed to measure the performance of the large and mid cap segments of the German market.

United Kingdom - MSCI United Kingdom Index - is designed to measure the performance of the large and mid cap segments of the UK market.

India - MSCI India Index - is designed to measure the performance of the large and mid cap segments of the Indian market.

Fixed Income Definitions
Government Bond - Bloomberg US Government Index - measures the performance of the U.S. Treasury and U.S. Agency Indices, including Treasuries and U.S. agency debentures. It is a component of the U.S. Government/Credit Index and the U.S. Aggregate Index.

Municipal - Bloomberg U.S. Municipal Index - covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

U.S. Aggregate Bond - Bloomberg U.S. Aggregate Bond Index - is a broad-based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage backed securities, asset-backed securities and corporate securities, with maturities greater than one year.

Investment Grade Corporate - Bloomberg U.S. Credit Index - measures the investment grade, US dollar-denominated, fixed-rate, taxable corporate and government related bond markets. It is composed of the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

High Yield - Bloomberg U.S. Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Bloomberg EM country definition, are excluded.

Definitions
Weighted Avg. Market Cap: measures the size of the companies in which the portfolio invests. Market capitalization is calculated by multiplying the number of a company's shares outstanding by its price per share.

Price-to-Earnings (P/E) Ratio: measures how expensive a stock is. It is calculated by the weighted average of a stock's current price divided by the company's earnings per share of stock in a portfolio.

Dividend Yield: the portfolio's weighted average of the underlying portfolio holdings and not the yield of the portfolio.