Madison INVESTMENTS

MONTHLY MARKET UPDATE

September 2022

At times it seems as if the Federal Reserve's powers are kingly, even though its tool kit is limited to a singular interest rate declaration (plus nine trillion dollars or so of bond purchases). The markets follow the Fed the way royal regents in olden times observed the moods of all-powerful monarchs. In July, Fed watchers uncovered subtle signs of a "pivot" -- an end or reversal of interest rate increases and the U.S. stock markets experienced a surprisingly robust rally. Throughout August this optimism waned and the S&P 500® Index dipped -4.1%, bringing the year-to-date return to -16.2%. Federal Reserve Chairman Jerome Powell's comments from Jackson Hole on August 26 confirmed the market's negative sentiment when he used the word "pain" to describe the leverage needed to reverse inflation and warned that getting to an acceptable inflation rate would require higher rates for longer and reducing Federal Reserve assets "for some time."

Meanwhile, the domestic economy continues to chug along. Real GDP continues to show a positive trend, even as indicators point toward a more modest rate near 1%. Consumer sentiment showed an incremental rebound from all-time lows behind lower gasoline prices, while CEO confidence also showed a positive move from lows. Corporate earnings and profits (even with some notable exceptions) seemed to be relatively resilient despite rising prices and the improving but still relevant supply chain issues. However, the guidance companies were providing about future earnings was often less optimistic. The latest unemployment claims were below expectations while the widely watched employment report of September 2 revealed 315,000 new jobs, a strong number even though lower than July's exceptional growth. Travel and leisure and the restaurant industry benefited from the ongoing Covid rebound effect, with service jobs showing neither abatement of need or success in fulfillment. Patrons, be warned: your table service may be a little slower than optimal.

In terms of market returns, Energy and Utilities were the only positive sectors in August, with Real Estate, Health Care, and Technology bringing up the rear. Riskier stocks tended to get hit harder than the stocks of fundamentally sound companies. Value stocks held up better than growth stocks, while smaller stocks outperformed the stocks of larger companies.

As was true in the preceding months, the main glitch in this healthy appearing economy is the persistence of inflation. While economists can cite indicators of moderation in inflation, grocery shoppers will not be impressed. But we are seeing positive signals such as rising retail inventories, improving supply chains, and falling disposable income which suggests slowing inflation. Rising rates are having an impact, although some of the repercussions take several quarters to take hold. Fed Chairman Powell has pointed out that the Fed has no power to control supply and can only focus on dampening demand. In other words, the Fed has no influence on the production of semiconductor chips, but by raising rates they can make auto loans more expensive and, in doing so, reduce sales and the pressures on the automobile semiconductor supply chain. Should inflation moderate sharply and should the job market soften, prospects for a Fed slowing rate hikes or even a reversal rise. This is the soft landing which contains the best hopes of the Fed and stock investors. However, should inflation show persistence while employment stays robust, the Fed may be inclined to continue to hike rates past the anticipated 3.5% to 3.75% level. This would raise the specter of a 2023 recession, which many correlate directly with Chairman Powell's use of the word "pain."

As U.S. stocks drifted lower in August, the alternatives continued to look bleak. European stocks are mired in multiple levels of challenges. These include an energy crisis brought on by the Ukrainian war, which has pushed natural gas prices to a level nearly ten times higher than the U.S. The European Central Bank has just begun the rate hike cycle well underway by the Federal Reserve. This is despite inflation breaking through the 9% level in the Euro-Zone. The other main alternative, the bond market, is suffering one of its worst periods in history, and August provided no relief. Rates rose across the yield curve, driving down the value of existing bonds. The year-to-date return of the Bloomberg US Aggregate Bond Index, a proxy for the overall bond market, was near -10.7% at the end of August.

So after surveying all the alternatives, eyes naturally return to the stock market. July was an example of the dangers of market timing since being on the sidelines meant missing a sharp rally. This rally kept third quarter-to-date stock returns solidly positive even after this past month's decline. We believe current circumstances pose potential short-term risks for stock investors, but this is hardly novel. Stock investors are always subject to short-term risks. But this volatility is never evenly distributed.

MONTHLY MARKET UPDATE
As of August 31, 2022

U.S. EQUITIES (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
DJ Industrial Average	-3.7	-12.0	-9.1	8.3	9.9	11.8
S&P 500	-4.1	-16.1	-11.2	12.4	11.8	13.1
Russell 1000	-3.8	-16.9	-13.0	12.1	11.6	13.0
Russell 1000 Value	-3.0	-9.8	-6.2	8.9	7.9	10.5
Russell 1000 Growth	-4.7	-23.2	-19.1	14.5	14.8	15.1
Russell Midcap	-3.1	-16.5	-14.8	9.4	9.2	11.6
Russell 2000	-2.0	-17.2	-17.9	8.6	6.9	10.0

U.S. EQUITY CHARACTERISTICS - S&P 500

	August	2021
Price/Earnings Ratio	19.8	25.5
Weighted Avg. Market Cap ($B)	531.4	674.3
Dividend Yield (%)	1.6	1.2

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

	August	YTD	Weight
Communication Services	-4.2	-30.6	8.4
Consumer Discretionary	-4.6	-23.8	11.4
Consumer Staples	-1.8	-4.2	6.8
Energy	2.8	48.7	4.7
Financials	-2.0	-14.6	10.9
Health Care	-5.8	-10.8	14.1
Industrials	-2.8	-11.4	7.9
Information Technology	-6.1	-22.1	27.3
Materials	-3.5	-15.9	2.5
Real Estate	-5.6	-18.1	2.9
Utilities	0.5	5.5	3.1

INTERNATIONAL EQUITIES (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
ACWI	-3.7	-17.8	-15.9	8.0	7.0	8.7
ACWI ex USA	-3.2	-18.3	-19.5	2.9	1.7	4.5
MSCI EAFE	-4.7	-19.6	-19.8	2.4	1.6	5.0
Emerging Markets	0.4	-17.5	-21.8	2.7	0.6	2.9
China	0.2	-19.5	-28.2	-2.2	-2.3	4.7
Japan	-2.6	-17.9	-19.0	2.3	2.0	6.2
Germany	-6.4	-31.7	-35.0	-3.3	-3.9	2.8
United Kingdom	-5.6	-10.8	-7.7	2.7	1.4	3.1
India	4.1	-3.5	-3.2	15.2	8.6	9.5

KEY ASSET PRICES

	August	2021
EUR/USD	1.00	1.13
CAD/USD	1.30	1.28
JPY/USD	137.07	115.17
GBP/USD	1.18	1.35
Bitcoin ($)	19,878.5	47,413.3
Gold ($/oz)	1,717.0	1,816.0
Crude Oil (WTI) ($/bbl)	86.6	77.0

FIXED INCOME (%)

	August	YTD	1 Year	3 Year	5 Year	10 Year
Government Bond	-2.5	-9.9	-10.7	-2.2	0.3	0.8
Municipal	-2.2	-8.6	-8.6	-0.8	1.3	2.3
U.S. Aggregate Bond	-2.8	-10.8	-11.5	-2.0	0.5	1.4
Investment Grade Corporate	-2.8	-13.7	-14.4	-2.1	1.0	2.2
High Yield	-2.3	-11.2	-10.6	1.0	2.6	4.5

U.S. TREASURY YIELDS (%)

	August	2021
3-Month	3.0	0.1
6-Month	3.3	0.2
2-Year	3.5	0.7
5-Year	3.3	1.3
10-Year	3.2	1.5
30-Year	3.3	1.9

DISCLOSURES

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Indices are unmanaged. An investor cannot invest directly in an index. They are shown for illustrative purposes only, and do not represent the performance of any specific investment. Index returns do not include any expenses, fees or sales charges, which would lower performance.

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 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.

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

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index, which represents approximately 11% of the total market capitalization of the Russell 3000® Index.

The Russell Midcap® Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap® Index is a subset of the Russell 1000® Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.

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International Equities Definitions
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.