Markets at a Glance

Third Quarter 2022

Equities

- Global equity markets, as measured by the MSCI World Index, fell -6.19% for the quarter due to inflation concerns, central bank rate hikes, and slowing economic growth. U.S. equities outperformed international developed equities and their emerging market peers. The U.S. dollar appreciated 5.77% versus a basket of EAFE currencies and appreciated 3.39% versus a basket of emerging market currencies.

- Large-cap stocks, as measured by the S&P 500 Index, fell -4.88%. It was a dramatic roundtrip for stock market performance in Q3. The S&P 500 rose by 14.0% from the end of June through August 16th, then fell 16.5% from that high through the end of the quarter. Consumer Discretionary and Energy were the best performing and only positive sectors, up 4.36% and 2.35%, respectively. Communication Services and Real Estate were the worst performing sectors, down -12.72% and -11.03%, respectively. U.S. Services Purchasing Managers Index (PMI) data moved into contractionary territory in July, August, and September, primarily driven by a slowdown in hiring and a marginal decline in output.

- Small-cap stocks, as measured by the Russell 2000 Index, fell -2.19%. Health Care and Energy were the best performing sectors, up 6.83% and 6.80%, respectively. Consumer Staples and Information Technology were the worst performing sectors, down -8.42% and -7.60%, respectively. Lower-quality small-cap companies outperformed: companies with negative earnings before interest and taxes (EBIT) outpaced those with earnings, while dividend payers underperformed non-dividend payers. The Russell 2000 Value Index underperformed the Russell 2000 Growth Index by 4.85% during the quarter, snapping small-cap value's streak of seven consecutive quarters of outperformance.

- International equities, as measured by the MSCI EAFE Index, fell -9.36%, with more than half of this decline due to currency weakness vs. the U.S. dollar. European Manufacturing PMI data moved into contractionary territory, ending a period of twenty-four consecutive months of expansion. Eurozone Services PMI data turned negative in August, with a decline in new orders being driven by steep inflationary pressures and cost of living concerns leading businesses to postpone buying decisions. Eurozone unemployment remained at an all-time low of 6.60% in August.

- Emerging market (EM) equities, as measured by the MSCI EM Index, fell -11.57%. China was one of the weakest performers, as the spread of COVID throughout China weakened sentiment and led to increased fears of further lockdowns. Globally economic-sensitive countries, such as South Korea and Taiwan, performed poorly as the outlook for global trade weakened. In addition, rising interest rates across the world led investors to sell riskier assets, such as emerging market equities.

- Global Real Estate, as measured by the EPRA/NAREIT Developed Index, fell -11.39%. U.S. REITS experienced slight relative outperformance as they fell -11.19%. As a result of 30-year mortgage rates rising from 5.78% to 7.06%, home prices began to decline for the first time in a decade and the supply of existing homes in the U.S. increased to 3.2 months. In a reversal from last quarter, nontraditional real estate, such as data centers and cell towers, underperformed vs. more traditional areas, such as office and residential REITs.

Fixed Income Markets

- Core bonds, as measured by the Bloomberg Aggregate Bond Index fell -4.75%, while Bank Loans (1.37%) and High-Yield Bonds (-0.68%) outperformed. U.S. Treasuries (-4.35%) outperformed U.S. Corporate Bonds (-5.06%) and Agency Mortgage-Backed Securities (-5.35%).

- Federal Reserve (Fed) Chairman Jerome Powell reiterated that he is "strongly committed" to bringing down inflation and that he expects to continue hiking rates until he sees slowing economic growth and "clear evidence" that inflation is behind us. The short-end of the Treasury yield curve steepened dramatically due to continued rate hikes and the increased expectations of higher interest rates. The ten-year Treasury yield rose from 2.98% to 3.83% during the quarter, while the yield differential between a ten and two-year Treasury inverted as the two-year Treasury yield rose to 4.05%.

- The Fed raised the fed funds rate by 1.50% during the quarter, bringing its target rate to a range of 3.00% to 3.25%. The Fed continued its balance sheet reduction program, with its total assets declining by $120 billion during the quarter. The balance sheet reduction program involves allowing $30 billion of U.S. Treasuries and $17.5 billion of Agency Mortgage-Backed Securities to mature or be sold each month. Employment data (unemployment at 3.50%) remained strong, while inflation data (Core PCE at 4.90%) remains well above the Fed's long-term average target of 2.00%.

- The European Central Bank (ECB) raised its main deposit rate by 0.50% in July and 0.75% in September, with the latter marking the largest interest rate hike in the central bank's 24-year existence. The main deposit rate turned positive for the first time since 2014, as it ended the quarter at 0.75%. ECB President Christine Lagarde noted that policymakers expect to raise interest rates further to dampen demand and attempt to reduce persistent Eurozone inflation, which reached an all-time high of 9.10% in August.

Market Performance
As of 09/30/2022

Asset Class	Index	3rd Qtr.	YTD
EQUITIES			
Domestic			
Large-Cap	S&P 500	-4.88%	-23.87%
Large-Growth	R1000 Growth	-3.60%	-30.66%
Large-Value	R1000 Value	-5.62%	-17.75%
Small-Cap	Russell 2000	-2.19%	-25.10%
Small-Growth	R2000 Growth	0.24%	-29.28%
Small-Value	R2000 Value	-4.61%	-21.12%
International			
Developed Mkts.	MSCI EAFE	-9.36%	-27.09%
Emerging Mkts.	MSCI EM	-11.57%	-27.16%
Global			
Developed Mkts.	MSCI World	-6.19%	-25.42%
Real Estate Investments			
U.S. REITs	NAREIT	-11.19%	-28.24%
Global REITs	EPRA/NAREIT Developed	-11.39%	-29.42%
FIXED INCOME			
High-Yield	Barclays US HY	-0.68%	-14.62%
Interm.-Term	Bloomberg Agg	-4.75%	-14.61%
Short-Term	Citi G/C 1-3	-1.48%	-4.54%