

# Market Pulse *from the Investment Advisory Group*

October 3, 2022

## In focus

Global equity markets suffered last week from a barrage of geopolitical events and warnings of worsening financial conditions. Bond markets seasawed with the dollar strengthening to a new 20-year high as the Federal Reserve's (Fed) higher-for-longer narrative set in. Personal Consumption Expenditures (PCE) from August supported that notion as core PCE exceeded investor expectations.

The Russia/Ukraine conflict intensified last week, culminating on Friday with the annexation of four regions of Ukraine. The worsening conflict casts a darker shadow on the European economy as it battles high inflation and punishing energy prices. The United Kingdom (UK) found its spot in the headlines as well after its government's mini-budget generated a strong negative reaction, sending the pound to an all-time low against the U.S. dollar. The lack of confidence in the government's plan elevated yields on government bonds (gilts) and prices fell. Just as pensions began to feel the squeeze, the Bank of England stepped in and greased the wheels, buying long-dated gilts.

These events highlight our theme of wider potential outcomes. Despite this, we don't view this as a time to become even more cautious given the already- steep decline in markets. The silver lining is that our expectations for longer-term returns are improving.

## A look back

- Global stocks continued their slide last week, dropping by 2.5% and falling for a third-consecutive week. International developed markets fell 1.4% as instability budded in the UK, and U.S. equity markets declined 2.9%. Emerging market equities fared the worst, dropping 3.3% on the week.
- The 2-year U.S. Treasury yield held flat while the 10-year yield once again rose, with the 2-/10-year inversion narrowing from -0.51% to -0.41%.
- Core PCE, the Fed's preferred metric for inflation, came in above expectations for the month of August and showed strength across a range of categories.

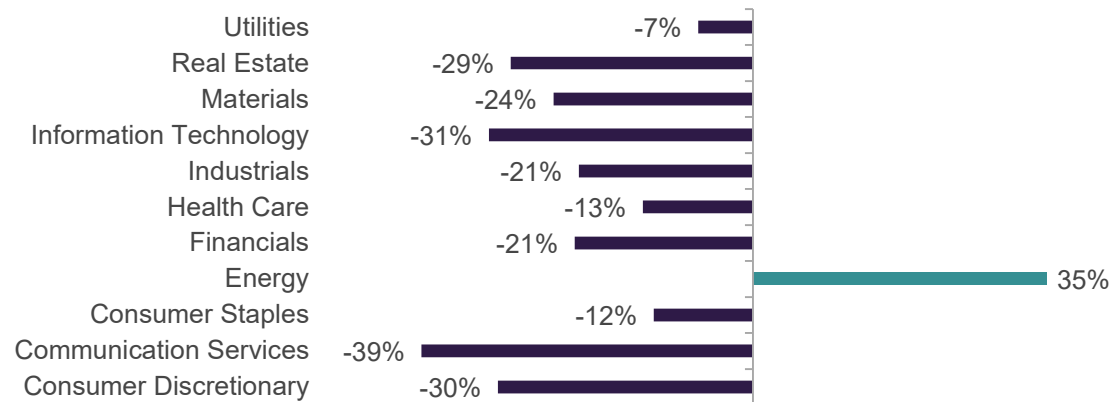


## A look ahead

- Investors will be focused on jobs data this week as they continue to gauge the resilience of the U.S. economy in the wake of continued elevated inflation readings and a hawkish Fed.
- There is an abundance of Fed speeches this week with central bankers taking the stage for five days straight.
- Economic releases: ISM & S&P Global U.S. Manufacturing & Services, Construction Spending, Durable Goods, Factory Orders, JOLTS Job Openings, Nonfarm Payrolls, Wholesale Inventories, MBA Mortgage Applications, and the Unemployment Rate.

## Chart of the week – Year-to-date changes in S&P 500 sectors

Since its June high, the S&P 500 Energy sector is down nearly 21%. Despite its recent decline, the sector remains the best performing sector in the S&P 500 this year and the only positive sector.



Data source: Truist IAG, FactSet

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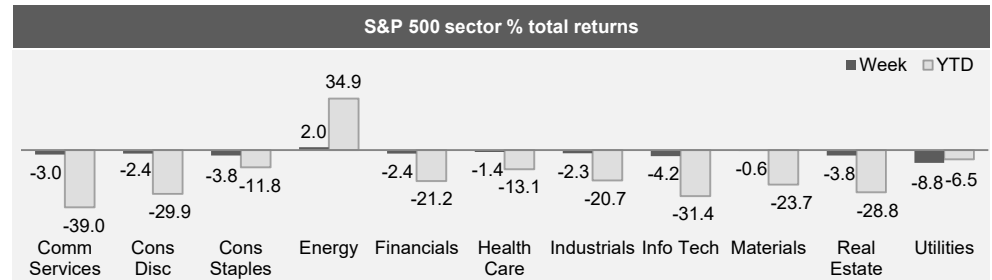
As of September 30, 2022

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	-2.48	-9.57	-6.82	-25.63	-20.59
S&P 500	-2.88	-9.21	-4.88	-23.87	-15.42
MSCI EAFE (net)	-1.35	-9.35	-9.36	-27.09	-25.05
MSCI Emerging Markets (net)	-3.26	-11.72	-11.57	-27.16	-28.02
Dow Jones Industrials	-2.92	-8.76	-6.17	-19.72	-13.35
Bloomberg Aggregate	-0.99	-4.32	-4.75	-14.61	-14.55
ICE BofA US High Yield	-1.34	-4.02	-0.68	-14.62	-14.01
Bloomberg Municipal Bond Blend 1-15 Year	-0.73	-3.03	-2.58	-9.21	-8.83
ICE BofA Global Government xUS (USD Unhedged)	-0.44	-6.50	-10.06	-27.02	-28.33
ICE BofA Global Government xUS (USD Hedged)	-0.48	-2.71	-3.16	-11.13	-10.93
JP Morgan EMBI Global Diversified	-3.11	-6.36	-4.57	-23.95	-24.20

Rates (%)	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21
Fed Funds Target	3.25	1.75	0.50	0.25	0.25
Libor, 3-Month	3.75	2.28	0.96	0.20	0.13
T-Bill, 3-Month	3.23	1.64	0.51	0.05	0.03
2-Year Treasury	4.20	2.93	2.28	0.72	0.28
5-Year Treasury	4.03	3.00	2.42	1.26	0.99
10-Year Treasury	3.79	2.97	2.32	1.51	1.52
30-Year Treasury	3.76	3.12	2.45	1.90	2.09
Bloomberg Aggregate (YTW)	4.75	3.72	2.92	1.75	1.56
Bloomberg Municipal Bond Blend 1-15 Year	3.73	2.82	2.36	0.87	0.84
ICE BofA US High Yield	9.58	8.93	6.02	4.31	4.08
Currencies	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21
Euro (\$/€)	0.98	1.05	1.11	1.14	1.16
Yen (¥/\$)	144.75	135.86	121.37	115.16	111.57
Pound (\$/£)	1.12	1.21	1.32	1.35	1.35
Commodities	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21
Crude Oil (WTI)	79.49	105.76	100.28	75.21	75.03
Gold	1,672	1,807	1,954	1,829	1,757
Volatility	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21
CBOE VIX	31.62	28.71	20.56	17.22	23.14

U.S. style % total returns (S&P indexes)						
Week			YTD			
Value	Core	Growth	Value	Core	Growth	
-2.72	-2.88	-3.06	-16.56	-23.87	-30.41	Large
-2.52	-1.53	-0.44	-17.46	-21.52	-25.48	Mid
-2.01	-1.40	-0.71	-19.99	-23.16	-26.23	Small

Data Source: Truist, FactSet



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Commonly used acronyms— SAAR = seasonally adjusted annual rate— MoM = month-over-month change— QoQ = quarter-over-quarter change— YoY = Year-over-year change— K = thousands— M = millions. Investing in the bond market is subject to certain risks, including market, interest rate, issuer and inflation risk— investments may be worth more or less than the original cost when redeemed. The value of most bond strategies and fixed income securities are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and more volatile than securities with shorter durations— bond prices generally fall as interest rates rise, and values rise when interest rates decline.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

S&P 500 Information Technology Index —a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification.

The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MSCI ACWI Index (MSCI All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The Bloomberg Municipal Bond Blend 1-15 Year (1-17 Yr) is an index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least \$50 million, that have a maturity value of at least \$5 million and a maturity range of 12 to 17 years.

The Bloomberg U.S. Corporate High Yield measures the USD-denominated high yield fixed-rate corporate bond market. Bonds are classified as high yield if they are rated below BBB by Moody's and S&P.

The Bloomberg Dollar Spot Index tracks a basket of 10 leading global currencies versus the U.S. dollar.

The ICE BofAML Global Government ex U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in U.S. dollars.

JP Morgan EMBI Global Diversified index includes only USD-denominated emerging markets sovereign bonds and the traditional, market capitalization weighted method for country allocation is modified to limit the weights of index countries with larger debt loads by only including a specified portion of the eligible fact amounts of the debt outstanding.

The Bloomberg Commodity Index is a composition of futures contracts on physical commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock.

The S&P U.S. REIT index measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

IA SBBBI U.S. Large Stock Index measures the total return of U.S. large cap stocks on a monthly basis.

IA SBBBI Intermediate-Term Government Bond Index measures the total return of U.S. intermediate-term government bonds on a monthly basis.

IA SBBBI U.S. 30-day T-Bill index measures the total return of T-Bills with a maturity of one month on a monthly basis.

The S&P 500 High Beta index measures the performance of 100 constituents in the S&P 500 that are the most sensitive to changes in market returns.

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