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In the third quarter, the equity and fixed income markets continued their downtrend largely reacting to inflation, which reached the highest levels in over 40 years. The Federal Reserve maintained its aggressive action to bring down inflation by raising rates by 0.75% in both July and September, bringing the total rate increases for the year to 3.0%, with two more meetings (November and December) still to go. The fixed income market is currently pricing in at least 1.25% in combined rate increases from those two meetings before year end. These rate increases have pushed the 10 Year US Treasury yield to over 3.8% at quarter-end. For reference, the same Treasury yielded only 1.5% to start the year. These sharp increases in rates, in combination with other factors, such as an inverted yield curve have prompted concern over a slowing US economy, possible recession, and drop in corporate earnings.

As you know, the fixed income component of your portfolio is not only designed to provide current income but also helps to reduce portfolio volatility that accompanies investing in the equity markets. For reference, the Bloomberg US Aggregate Bond Index was down 14.6% through September 30th making it one of the worst years on records. While the drop in the bond prices is meaningful (as yields rise, bond prices decrease), fixed income investments have still provided a better return than equities this year. Accordingly, we are keeping an eye on interest rates and yields and will be looking to improve our fixed income holdings over the next several quarters. We view the higher yields as good news in the long-term for the fixed income portion of the portfolios.

On the US equity side of the portfolio, two major factors impacted the markets – the continued high inflation and concern that the Federal Reserve is raising rates too aggressively which could dramatically slow the economy or push us into a recession. On the International equity side of the portfolio, global factors such as the Ukraine War, energy shortages, global inflation, strong US dollar compared to other currencies, and supply chain constraints continue to impact the markets. Both the US and International equity markets closed the quarter at near their low for the year. For reference, the S&P 500 had lost 23.9% year-to-date through September 30th while the MSCI EAFE (International) index was down 26.8% for the year. As you can see, it has been a very difficult year for investors across the board. As we noted last quarter, the markets are always forward looking and largely react to future prospects as opposed to today’s news and economic numbers. With markets already being down significantly this year, much of the economic slowing appears to be priced in. While we expect more economic softening ahead, markets tend to rebound well before the economy does.

We understand that the current decrease in the value of your investments and continued market volatility can be concerning, but we want to remind you that it’s important to stay invested and think long-term. We remain optimistic during these temporary market selloffs and remain confident in our long-term strategy of having a globally diversified portfolio that is designed to weather the ups and downs through the various market cycles. We are starting to see some positive signs – energy prices

have come down, future inflation indicators are starting to decline, and employment continues to remain very strong. That said, we remain hopeful that the Fed will be able to curb inflation without pushing the economy into a major recession. In fact, equities are historically a good inflation hedge.

As mentioned above, we can schedule a conference or video call at a convenient time for you if you would like additional information on the portfolios or our investment outlook.

Disclosure

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