September 2022

# DeMarche Dashboard

## A Flash Report on Markets and the Economy


Data and Commentary for the Period Ended 9/30/2022

## Global Overview

As the global markets observed a glimpse of decelerating inflation and signs of slowing global growth, central banks continued raising rates, but with the prospect of slowing rate increases with further signs of declining inflation. Global central banks remain focused on Headline and Core CPI reports with consensus expectations pointing to the Fed raising rates by another 50-75 bps in November and December. Rising interest rates and fears of a potential global recession caused most markets to decline in September. The S&P 500 Index declined 9.2% during the month (down 23.9% year-to-date), and the MSCI EAFE declined 9.4% in September (down 27.1% year-to-date).

## U.S. Markets & Economy

Financial assets continued their decline in the third quarter with nearly all asset classes delivering negative returns. Driving these negative returns were rising interest rates and growing concerns that the Fed will likely err to the high side when hiking rates and ultimately cause a recession. US labor markets remained extremely tight, as revealed by the 3.7% unemployment rate reported in August and the greater than expected CPI print in August. The FOMC pushed back against market expectations with a "higher for longer" interest rate narrative. The Fed has determined the best course of action is to aggressively attack inflation now, while the economy is strong. As a result, correlations across financial assets converged, with concurrent price declines impacting stocks, bonds and commodities in the third quarter. Cash and floating rate debt (bank loans) proved to be the only public market assets to post gains in the quarter. Pressure on earnings multiples and the expectation of declining earnings led to negative equity returns in both small and large cap securities. The S&P 500 forward earnings multiples are currently at 9x, which is below the ten-year average of 16.9x, while investment grade fixed income valuations are trading at 10-year lows.

Even with monthly CPI data showing a few early signs of easing inflation, primarily in transportation and energy costs, the fixed income markets declined as Treasury rates increased across the curve. Although FOMC members appear to be united in their message against fighting inflation, other central banks are showing less resolve in their pursuit to contain inflation. Other central banks are more heavily weighing concerns about weaker global growth and increased market volatility. For example, after a rapid rise in UK Gilts, the BOE bought long duration securities to balance volatility, and the Bank of Japan has stepped in again to protect their currency in light of rapid depreciation.

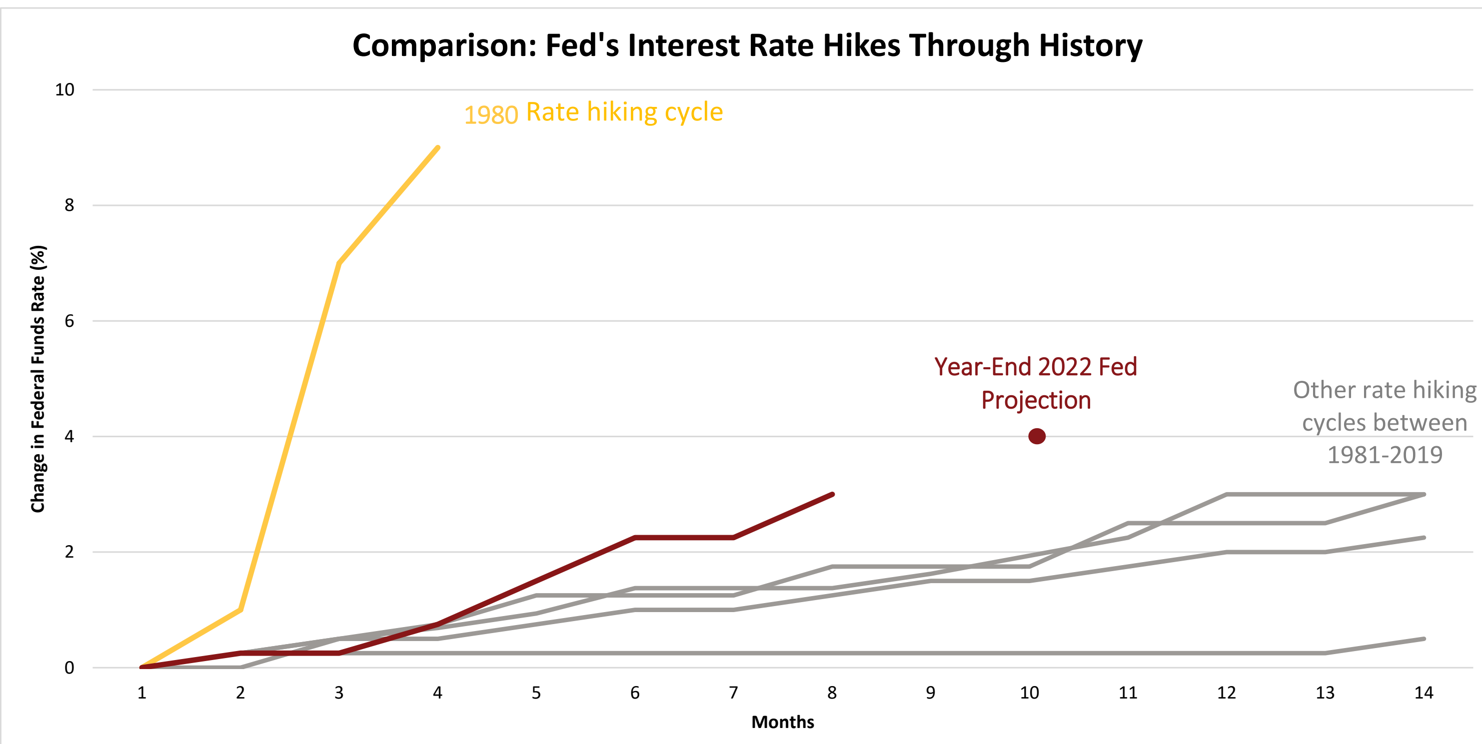
## International Markets & Economy

Eastern Europe continued to experience turmoil as Putin raised the stakes again in the Russian-Ukraine war by beginning to annex regions of Ukraine. This led to the West placing more sanctions on Russia, including price caps on seaborne crude and additional import bans, further hampering Russia's already-struggling economy. As part of its program to rein in inflation, the European Central Bank hiked rates another 125 basis points in September. Following BOE rate hikes and surging energy prices, the UK government took action to support citizens with a fiscal plan to reduce energy bills and implement income tax cuts. The announcement of the plan led to a slump in the British pound and the Bank of England sought to ease markets through an emergency program to buy government bonds. These policy pushes lead to the MSCI UK losing 8.8% and the MSCI Europe losing 8.7%. Eurozone manufacturing PMI, which dropped from 49.6 to 48.4 last month, suggests Europe is likely entering a recession, if not in one presently. Looming economic fears caused the consumer confidence to turn negative, at -28.8 points, for the first time since June 2020. Economic struggles also impacted China as the USD/CNY, the official currency of China, has been falling nonstop and hit multiyear lows causing the People's Bank of China to enact more aggressive policies contributing to the MSCI China Index's loss of 14.55%. The US Dollar has strengthened considerably verses foreign currencies, with the Nominal Broad US Dollar Index appreciating 10.69% year-to-date.

## In the News

As seen over the past few months, the Fed has been hiking rates in order to curtail the surge in inflation. This round of rate hiking has been rather aggressive compared to previous cycles, although paling in comparison to 1980, as seen in the chart of the month. The aggressive cycles affects consumers and businesses alike as the cost of borrowing increases. For firms, loans and debt will become more expensive to acquire, therefore dropping investment and slowing growth. Consumers feel the increased cost of borrowing not only in the rising cost of bank loans, but higher mortgage rates as well. In this volatile housing market, mortgage rates have doubled since the beginning of the year, and the number of home sales has been steadily declining. However, this is no different than in 1980 when mortgage rates climbed to 18% and sales slowed, but Americans still purchased homes. Nevertheless, as interest rates continue to rise, the limited inventory of homes available for sale relative to demand should support prices and suggests prices will likely remain elevated through the next few home buying seasons.

## Chart of the Month



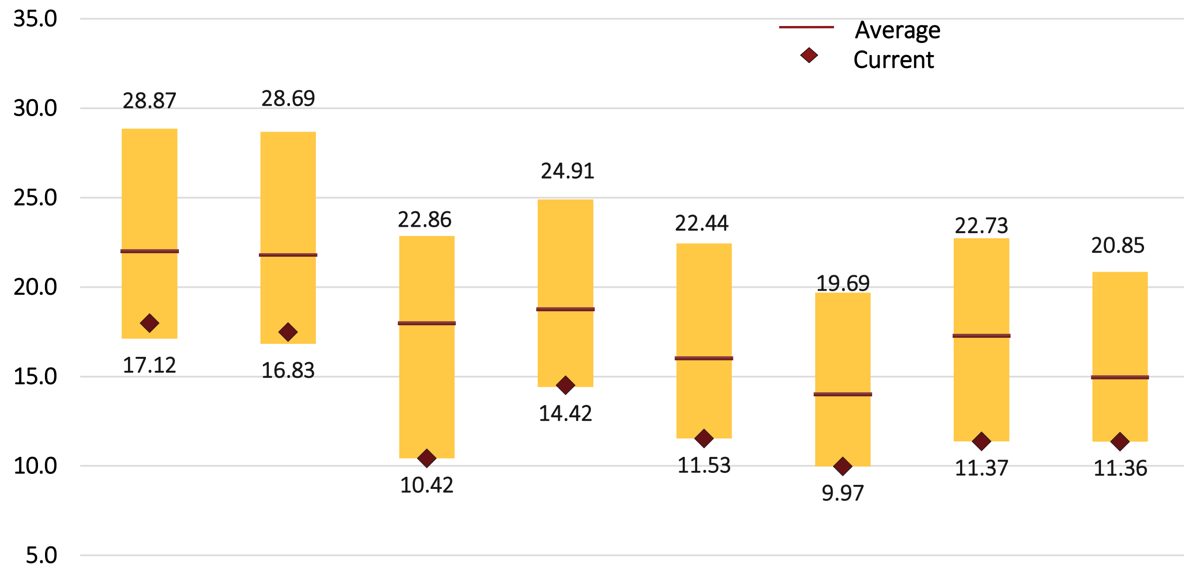

Source: Federal Reserve Economic Data - St. Louis FRED

## Capital Markets Overview

| | | TRAILING | | | ANNUALIZED | | | |
|---|---|---|---|---|---|---|---|---|
| | | 1-Mo | 3-Mo | YTD | 1-Yr | 3-Yr | 5-Yr | 10-Yr |
| Broad Market | MSCI World NR USD | (9.30) | (6.19) | (25.42) | (19.63) | 4.56 | 5.30 | 8.11 |
| | BBgBarc US Agg Bond TR USD | (4.32) | (4.75) | (14.61) | (14.60) | (3.26) | (0.27) | 0.89 |
| | Russell 3000 TR USD | (9.27) | (4.46) | (24.62) | (17.63) | 7.70 | 8.62 | 11.39 |
| | DJ Industrial Average TR USD | (8.76) | (6.17) | (19.72) | (13.40) | 4.36 | 7.42 | 10.45 |
| | NASDAQ Composite PR USD | (10.50) | (4.11) | (32.40) | (26.81) | 9.75 | 10.24 | 13.00 |
| | MSCI EAFE NR USD | (9.35) | (9.36) | (27.09) | (25.13) | (1.83) | (0.84) | 3.67 |
| | FTSE Treasury Bill 3 Mon USD | 0.20 | 0.45 | 0.62 | 0.63 | 0.57 | 1.13 | 0.66 |
| | Bloomberg Commodity TR USD | (8.11) | (4.11) | 13.57 | 11.80 | 13.45 | 6.96 | (2.14) |
| Domestic Equities | S&P 500 TR USD | (9.21) | (4.88) | (23.87) | (15.47) | 8.16 | 9.24 | 11.70 |
| | S&P MidCap 400 TR | (9.19) | (2.46) | (21.52) | (15.25) | 6.01 | 5.82 | 10.04 |
| | S&P SmallCap 600 TR USD | (9.88) | (5.20) | (23.16) | (18.83) | 5.48 | 4.84 | 10.09 |
| | Russell 1000 TR USD | (9.25) | (4.61) | (24.59) | (17.22) | 7.95 | 9.00 | 11.60 |
| | Russell 1000 Growth TR USD | (9.72) | (3.60) | (30.66) | (22.59) | 10.67 | 12.17 | 13.70 |
| | Russell 1000 Value TR USD | (8.77) | (5.62) | (17.75) | (11.36) | 4.36 | 5.29 | 9.17 |
| | Russell Mid Cap TR USD | (9.27) | (3.44) | (24.27) | (19.39) | 5.19 | 6.48 | 10.30 |
| | Russell Mid Cap Growth TR USD | (8.49) | (0.65) | (31.45) | (29.50) | 4.26 | 7.62 | 10.85 |
| | Russell Mid Cap Value TR USD | (9.70) | (4.93) | (20.36) | (13.56) | 4.50 | 4.76 | 9.44 |
| | Russell 2000 TR USD | (9.58) | (2.19) | (25.10) | (23.50) | 4.29 | 3.55 | 8.55 |
| | Russell 2000 Growth TR USD | (9.00) | 0.24 | (29.28) | (29.27) | 2.94 | 3.60 | 8.81 |
| | Russell 2000 Value TR USD | (10.19) | (4.61) | (21.12) | (17.69) | 4.72 | 2.87 | 7.94 |
| International Equities | MSCI ACWI Ex USA NR USD | (9.99) | (9.91) | (26.50) | (25.17) | (1.52) | (0.81) | 3.01 |
| | MSCI EAFE NR USD | (9.35) | (9.36) | (27.09) | (25.13) | (1.83) | (0.84) | 3.67 |
| | MSCI EAFE Growth NR USD | (9.74) | (8.50) | (33.02) | (30.28) | (1.49) | 0.67 | 4.70 |
| | MSCI EAFE Value NR USD | (8.97) | (10.21) | (21.08) | (20.16) | (2.79) | (2.74) | 2.39 |
| | MSCI Japan NR USD | (10.36) | (7.67) | (26.38) | (29.30) | (2.65) | (0.63) | 4.84 |
| | MSCI AC Asia Ex Japan NR USD | (12.77) | (13.83) | (27.86) | (28.75) | (1.33) | (1.21) | 3.03 |
| | MSCI Europe NR USD | (8.70) | (10.15) | (28.83) | (24.80) | (1.72) | (1.24) | 3.45 |
| | MSCI United Kingdom NR USD | (8.84) | (10.76) | (18.65) | (14.08) | (1.73) | (1.06) | 1.88 |
| | MSCI EAFE Small Cap NR USD | (11.50) | (9.83) | (32.11) | (32.06) | (2.16) | (1.79) | 5.28 |
| | MSCI EM NR USD | (11.72) | (11.57) | (27.16) | (28.11) | (2.07) | (1.81) | 1.05 |
| Fixed Income | BBgBarc US Govt/Credit TR USD | (4.08) | (4.56) | (15.10) | (14.95) | (3.15) | (0.05) | 1.02 |
| | BBgBarc US Govt/Credit Interm TR USD | (2.67) | (3.06) | (9.62) | (10.14) | (1.64) | 0.38 | 1.00 |
| | BBgBarc US Govt/Credit Long TR USD | (8.30) | (9.03) | (28.94) | (27.41) | (7.35) | (1.17) | 1.35 |
| | ICE BofA US High Yield TR USD | (4.02) | (0.68) | (14.62) | (14.06) | (0.67) | 1.41 | 3.86 |
| | Credit Suisse HY USD | (3.93) | (0.44) | (13.80) | (13.26) | (0.52) | 1.42 | 3.79 |
| | S&P/LSTA Leveraged Loan TR | (2.27) | 1.37 | (3.25) | (2.53) | 2.21 | 2.98 | 3.53 |
| | FTSE WGBI NonUS USD | (11.88) | (11.18) | (26.39) | (27.75) | (1.68) | (0.62) | 3.71 |
| | BBgBarc Gbl Agg Ex USD TR | (11.88) | (11.18) | (26.39) | (27.75) | (1.68) | (0.62) | 3.71 |
| REITs | FTSE Nareit All REITs TR | (13.19) | (11.18) | (28.34) | (17.41) | (1.73) | 3.48 | 6.62 |
| | Wilshire US REIT TR USD | (12.26) | (10.23) | (29.66) | (17.60) | (2.17) | 2.88 | 6.15 |

**USD** - US dollar priced index **TR** - Total Return **PR** - Price Return **LCL** - Local Currency Priced Index **NR** - Return includes reinvested net dividends

## Current Trailing P/E vs. Trailing 5-Year High, Low, Average




| | S&P 500 | Russell 1000 | Russell 2000 | MSCI AC World | MSCI EAFE | MSCI EM | MSCI Europe | MSCI AC Asia Pac |
|---|---|---|---|---|---|---|---|---|
| High Month | Mar-21 | Mar-21 | Nov-17 | Mar-21 | Mar-21 | Jan-21 | Mar-21 | Jan-21 |
| Low Month | Dec-18 | Dec-18 | Sep-22 | Dec-18 | Sep-22 | Sep-22 | Sep-22 | Sep-22 |

Source: Morningstar

## Economic Indicators

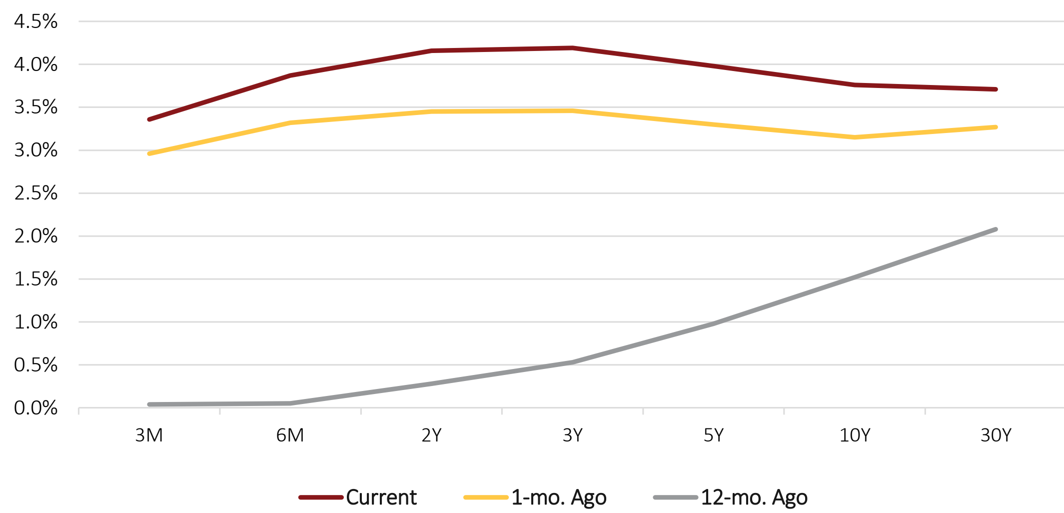
| | GDP | | | Unemployment Rate | Interest Rates | Exchange Rates[3] per US $ | | Inflation[2] |
|---|---|---|---|---|---|---|---|---|
| | Latest[1] | 2022[1] | 2023[1] | *(Most recently available)* | *Sovereign Bonds, 10 Year* | Current | 1 Year Ago | *(Most recently available)* |
| **United States** | -0.60 | 1.50 | 0.50 | 3.70 | 3.63 | - | - | 6.30 |
| **China** | -2.60 | 3.20 | 4.70 | 5.30 | 2.78 | 6.87 | 6.48 | 0.80 |
| **Japan** | 0.90 | 1.60 | 1.40 | 2.50 | 0.24 | 137.07 | 110.09 | 2.80 |
| **United Kingdom** | 0.20 | 3.40 | 0.00 | 3.60 | 3.63 | 1.18 | 1.37 | 6.30 |
| **Euro Area** | 0.80 | 3.10 | 0.30 | 6.60 | 2.06 | 0.97 | 1.17 | 4.80 |
| **Germany** | 0.10 | 1.20 | -0.70 | 5.50 | 1.91 | 1.00 | 1.17 | 2.50 |
| **France** | 0.50 | 2.60 | 0.60 | 7.40 | 2.49 | 0.99 | 1.17 | 4.30 |
| **Italy** | 1.10 | 3.40 | 0.40 | 7.80 | 4.20 | 1.00 | 1.17 | 5.00 |
| **Canada** | 0.80 | 3.40 | 1.50 | 5.40 | 3.08 | 1.36 | 1.27 | 5.80 |
| **India** | -1.40 | 6.90 | 5.70 | 6.60 | 7.47 | 79.51 | 74.12 | 7.00 |
| **Mexico** | 0.90 | 2.10 | 1.50 | 3.50 | 9.65 | 20.18 | 20.03 | 8.05 |
| **Brazil** | 1.20 | 2.50 | 0.80 | 8.90 | 11.71 | 5.24 | 5.29 | 9.12 |

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD
2. In terms of Core CPI
3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

## U.S. Treasury Yield Curves

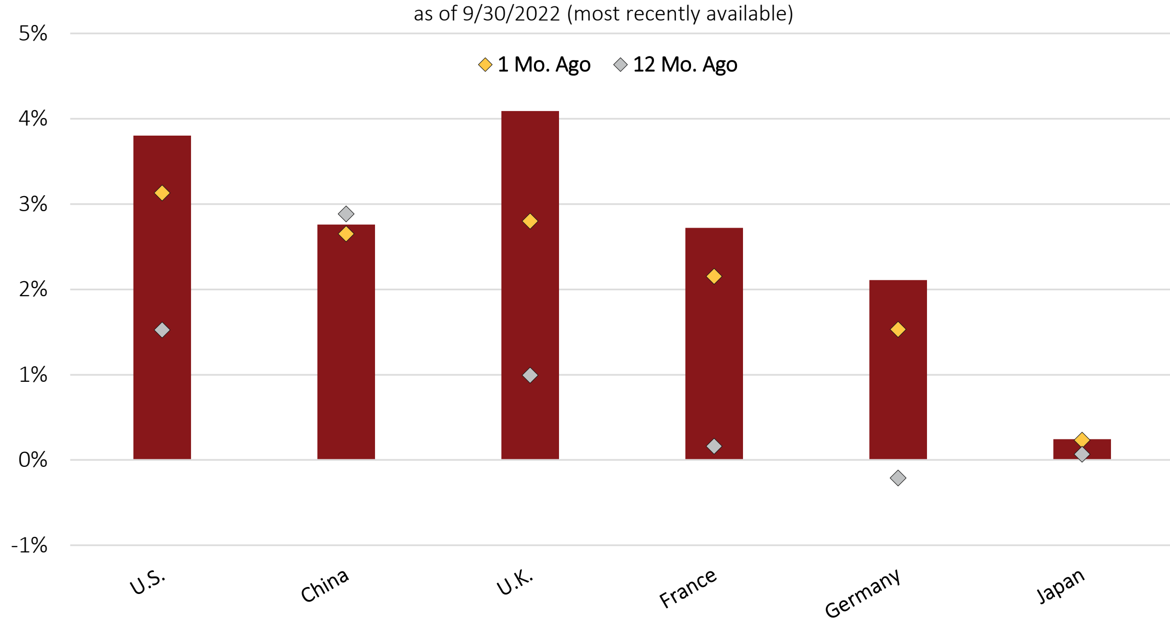
as of 9/29/2022




Source: Federal Reserve Bank

## 10-Year Sovereign Yields

as of 9/30/2022 (most recently available)

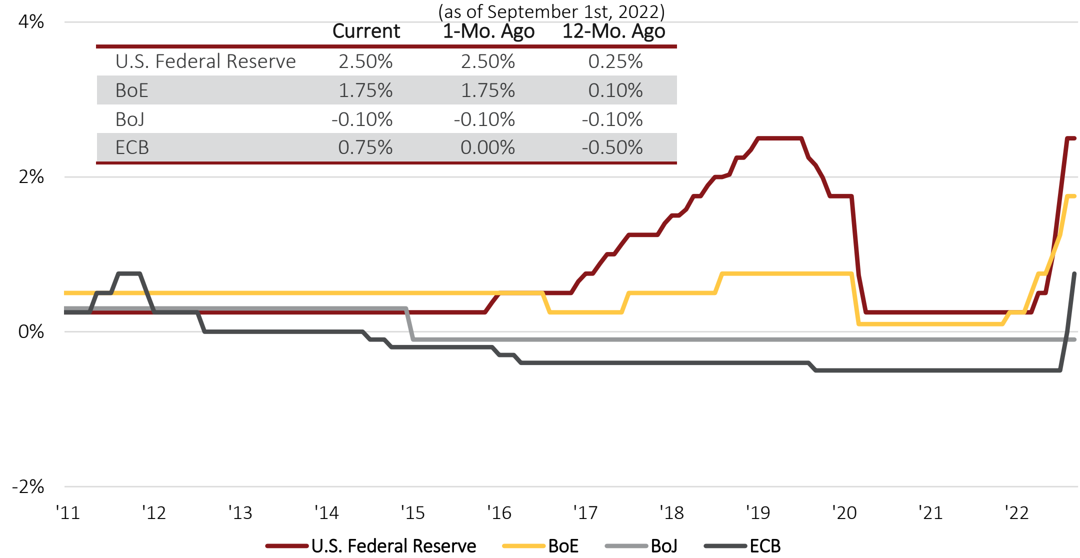



Source: Trading Economics

## Central Bank Policy Rates

(as of September 1st, 2022)

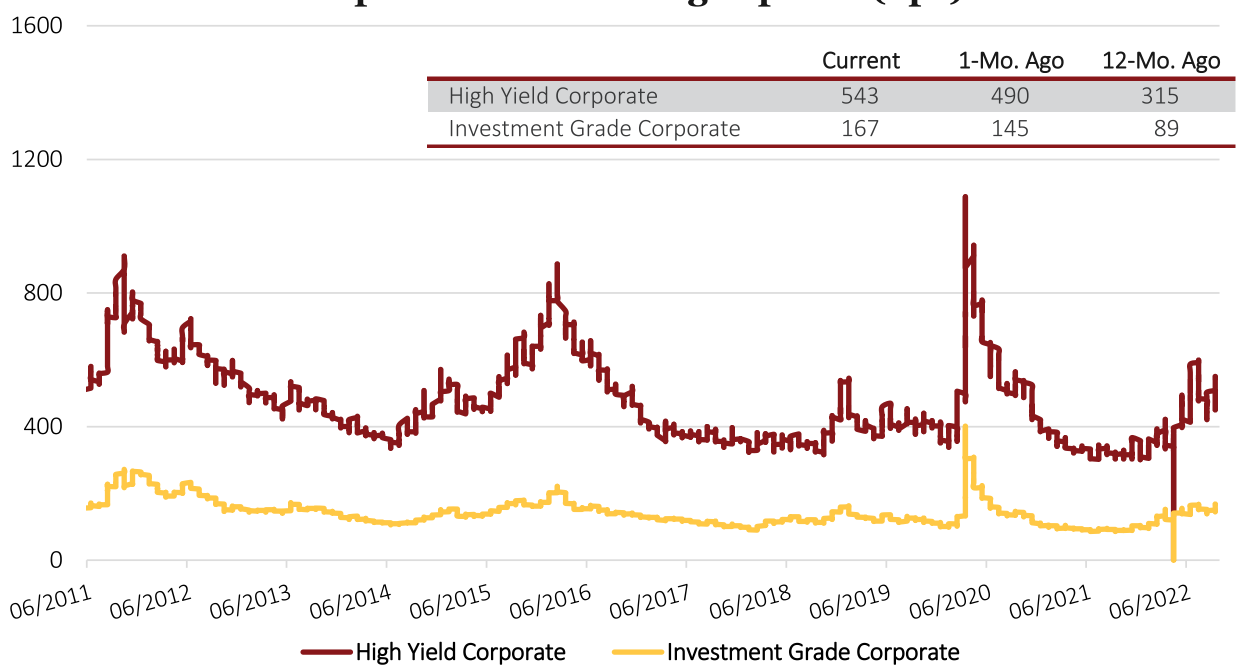
| | Current | 1-Mo. Ago | 12-Mo. Ago |
|---|---|---|---|
| U.S. Federal Reserve | 2.50% | 2.50% | 0.25% |
| BoE | 1.75% | 1.75% | 0.10% |
| BoJ | -0.10% | -0.10% | -0.10% |
| ECB | 0.75% | 0.00% | -0.50% |




Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

## Corporate Bond Average Spread (bps)

| | Current | 1-Mo. Ago | 12-Mo. Ago |
|---|---|---|---|
| High Yield Corporate | 543 | 490 | 315 |
| Investment Grade Corporate | 167 | 145 | 89 |




Source: Federal Reserve Bank