

October 2022

# DeMarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 10/31/2022

## Global Overview

Following two quarters of contraction, U.S. GDP growth was positive in the third quarter. Despite this positive GDP report paired with the low unemployment rate, the persistently high inflation has led to high expectations of sizable (50-75 bps) rate hikes at the Fed's upcoming meetings in November and December. Albeit smaller, the Eurozone also experienced third quarter GDP growth. Despite investors continuing to focus on high inflation and rising interest rates, most global markets reported positive returns. The S&P 500 Index increased 8.1% during the month (down 17.7% year-to-date), and the MSCI EAFE gained 5.4% in October (down 23.2% year-to-date).

## U.S. Markets & Economy

Financial assets sprang back in October with nearly all asset classes (other than global bonds) delivering positive returns. Even with these recovering returns, the market still faces concerns of the Fed erring on the high side with rate increases and ultimately causing a recession. Although third quarter U.S. GDP grew at a positive 2.6% rate, it did so largely as a result of increased net exports, which were buoyed by declining imports that were diminished by weakening in the housing market and corporate inventories. Additional mixed economic indicators that weighed on the market included U.S. labor costs rising 5% year-over-year and pending home sales contracting 35% year-over-year in October. The labor market surprised to the upside again in October with non-farm payrolls adding 261,000 jobs for the month over an expectation of 200,000. The Fed is also closely monitoring the 3.7% unemployment rate, which if seen rising would likely result in a decline in consumer spending and therefore a decline in inflation.

Both equities and most fixed income securities showed resiliency despite pressure from the continued inflationary and rising rate environment. Large cap and small cap equity securities increased in like fashion and returned a positive 8.0% and 11.0%, respectively, for the month. Fixed income assets fared worse than equities with a return of -1.3% (-15.7% year-to-date) for the Bloomberg U.S. Aggregate Index and a return of 1.0% (-2.3% year-to-date) for the S&P/LSTA Leveraged Loan Index. U.S. Treasury Bills made marginal gains with the FTSE 3 Month US T Bill Index returning 0.3% for October and 0.9% year-to-date.

## International Markets & Economy

International markets saw a slight rebound this month despite large amounts of volatility and inflation persisting throughout the Euro Area. Although their 3<sup>rd</sup> quarter GDP reported positive growth at a 0.2% rate, many are still suspecting that Europe will fall victim to stagflation, as inflation increased from 4.8% in September to 5.0% in October. In spite of the positive GDP report, Europe is still in panic mode as lending by the European Central Banks (ECB) reached an all-time high in October. The ECB made another rate hike of 75 basis points during the month, placing interest rates at 2%. The energy crisis persists across Europe as energy sensitive sectors in Europe continue to struggle with skyrocketing energy prices. Despite unpredictable economic conditions, European equity markets saw a rebound due to earnings reports that were better than predicted, which helped to ease some recession concerns. The MSCI Europe Index posted a 7.2% gain in the month of October, but the index still remains down 23.7% year-to-date. Emerging markets didn't get a taste of recovery this month as many EM countries continue to struggle with inflation, tighter financial conditions, and a strong US dollar causing the asset class to lose capital over the year. All of these factors led to mixed results in non-U.S. equities, as the MSCI EM Index fell 3.1%, and the MSCI EAFE Index advanced 5.4% in October.

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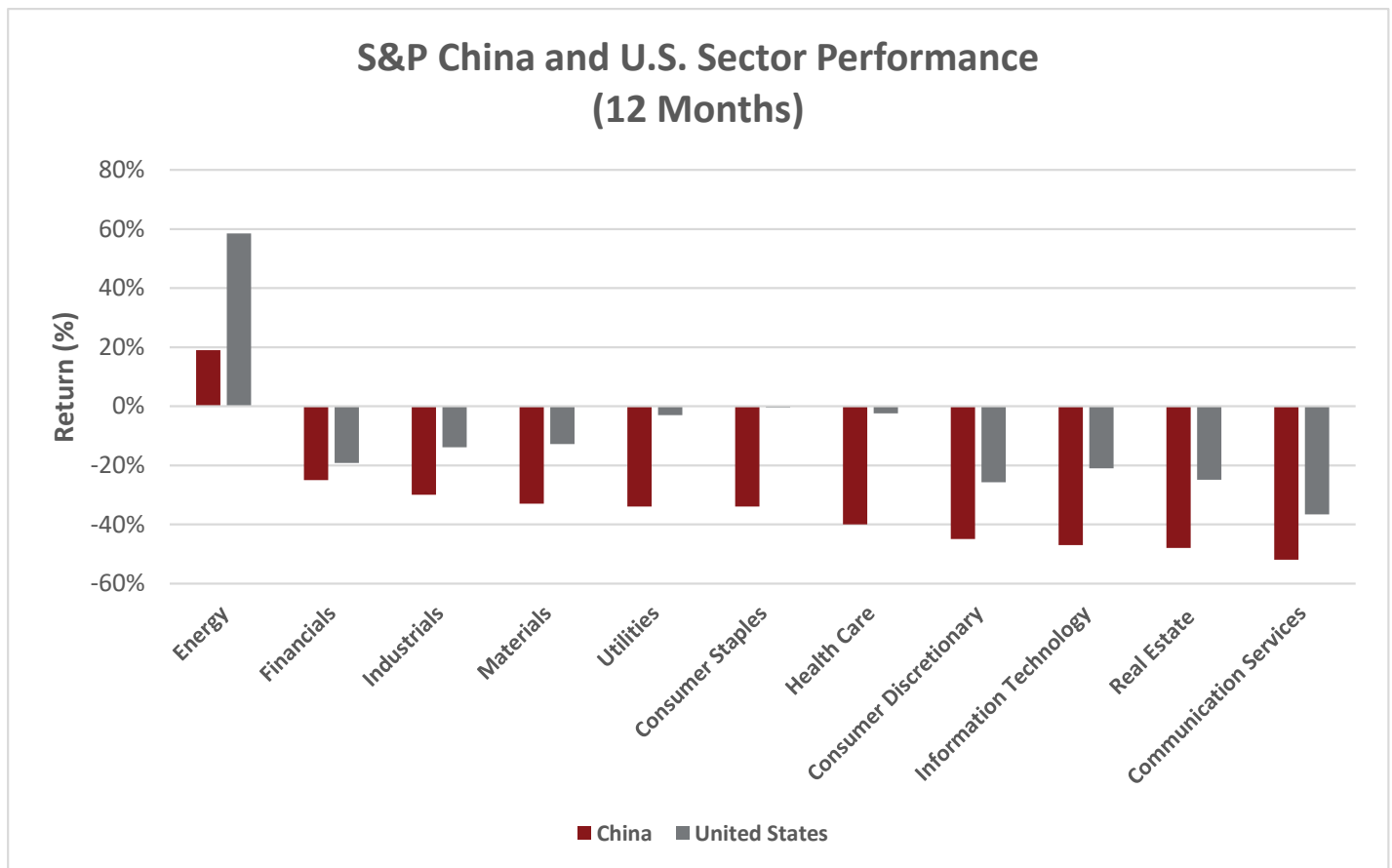
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## In the News

Over the past decade China has grown to be a global economic powerhouse, but has recently undergone political and economic turmoil causing the Chinese economy to struggle over the past year. Despite China previously delaying the release of their 3<sup>rd</sup> quarter data, GDP was reported as growing at a 3.9% rate, in line with expectations. Although GDP reflected growth, the Chinese equity market tumbled as the MSCI China Index was down 16.8% this month and -47.9% year-to-date. As seen in the chart of the month, Chinese sectors have taken a greater drop compared to their U.S. counterparts, with energy posting the only positive return. The disparity can be attributed to multiple factors. China's real estate sector, which alone makes up about 25% of their total GDP, has declined 48% in the past 12 months and shows no sign of resiliency in coming months. The technology sector has also taken sizable hits as the sector is down 47% over the past 12 months potentially due to the political concerns and two huge tech giants, Tencent and Alibaba, reporting substantial cuts in net income. Additionally, zero-tolerance COVID policies have been terrorizing the Chinese economy through decreased production and depressing consumer sentiment. Political turmoil comes into effect as Chinese citizens and investors worry about how President Xi Jinping, who just started his unprecedented third term in office, will focus on ideology-driven policies rather than economic growth, bringing deepening concerns about the expanded influence of the Communist Party on daily life and business activity. Despite declining consumer sentiment and plunging returns in certain sectors, it should be noted that some Chinese stocks have market values below their book value, suggesting they could be undervalued as a result of the sudden plummet.

## Chart of the Month



Source: Morningstar

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	7.18	(6.85)	(20.07)	(18.48)	6.11	6.37	8.94
	BBgBarc US Agg Bond TR USD	(1.30)	(8.23)	(15.72)	(15.68)	(3.77)	(0.54)	0.74
	Russell 3000 TR USD	8.20	(5.50)	(18.44)	(16.52)	9.79	9.87	12.46
	DJ Industrial Average TR USD	14.07	0.20	(8.42)	(6.74)	8.83	9.33	12.19
	NASDAQ Composite PR USD	3.90	(11.32)	(29.77)	(29.10)	9.84	10.31	13.95
	MSCI EAFE NR USD	5.38	(9.02)	(23.17)	(23.00)	(1.27)	(0.09)	4.13
	FTSE Treasury Bill 3 Mon USD	0.25	0.59	0.87	0.88	0.60	1.16	0.68
	Bloomberg Commodity TR USD	1.99	(6.20)	15.83	11.15	13.44	6.92	(1.56)
Domestic Equities	S&P 500 TR USD	8.10	(5.86)	(17.70)	(14.61)	10.22	10.44	12.79
	S&P MidCap 400 TR	10.52	(2.76)	(13.27)	(11.54)	9.20	7.47	11.23
	S&P SmallCap 600 TR USD	12.37	(3.18)	(13.66)	(11.81)	8.96	7.11	11.61
	Russell 1000 TR USD	8.02	(5.74)	(18.54)	(16.38)	9.99	10.19	12.66
	Russell 1000 Growth TR USD	5.84	(8.90)	(26.61)	(24.60)	11.75	12.59	14.69
	Russell 1000 Value TR USD	10.25	(2.41)	(9.32)	(7.00)	7.31	7.21	10.30
	Russell Mid Cap TR USD	8.88	(4.31)	(17.55)	(17.17)	7.84	7.95	11.36
	Russell Mid Cap Growth TR USD	7.86	(4.53)	(26.06)	(28.94)	6.27	8.66	11.95
	Russell Mid Cap Value TR USD	9.45	(4.19)	(12.83)	(10.18)	7.50	6.49	10.42
	Russell 2000 TR USD	11.01	(1.68)	(16.86)	(18.54)	7.05	5.56	9.93
	Russell 2000 Growth TR USD	9.49	(1.29)	(22.57)	(26.02)	5.11	5.17	10.15
	Russell 2000 Value TR USD	12.59	(2.08)	(11.19)	(10.73)	8.08	5.31	9.37
International Equities	MSCI ACWI Ex USA NR USD	2.99	(10.28)	(24.31)	(24.73)	(1.68)	(0.60)	3.27
	MSCI EAFE NR USD	5.38	(9.02)	(23.17)	(23.00)	(1.27)	(0.09)	4.13
	MSCI EAFE Growth NR USD	4.32	(11.55)	(30.13)	(29.58)	(1.26)	1.08	5.11
	MSCI EAFE Value NR USD	6.45	(6.36)	(15.99)	(16.35)	(1.91)	(1.67)	2.91
	MSCI Japan NR USD	2.96	(10.06)	(24.20)	(24.67)	(3.23)	(0.94)	5.34
	MSCI AC Asia Ex Japan NR USD	(6.10)	(18.10)	(32.26)	(33.99)	(4.80)	(3.34)	2.41
	MSCI Europe NR USD	7.17	(8.25)	(23.73)	(22.88)	(0.48)	0.04	4.02
	MSCI United Kingdom NR USD	6.03	(8.79)	(13.75)	(12.42)	(0.72)	(0.02)	2.41
	MSCI EAFE Small Cap NR USD	4.23	(11.85)	(29.24)	(30.28)	(2.26)	(1.30)	5.62
	MSCI EM NR USD	(3.10)	(14.11)	(29.42)	(31.03)	(4.42)	(3.09)	0.79
Fixed Income	BBgBarc US Govt/Credit TR USD	(1.24)	(7.74)	(16.15)	(16.04)	(3.64)	(0.32)	0.86
	BBgBarc US Govt/Credit Interm TR USD	(0.44)	(5.04)	(10.02)	(10.03)	(1.91)	0.30	0.94
	BBgBarc US Govt/Credit Long TR USD	(3.77)	(15.64)	(31.62)	(31.27)	(8.51)	(2.00)	0.84
	ICE BofA US High Yield TR USD	2.85	(3.65)	(12.19)	(11.45)	0.18	1.90	4.07
	Credit Suisse HY USD	2.82	(3.38)	(11.38)	(10.55)	0.34	1.90	3.99
	S&P/LSTA Leveraged Loan TR	1.03	0.26	(2.25)	(1.78)	2.72	3.07	3.61
	FTSE WGBI NonUS USD	0.18	(11.66)	(26.69)	(27.64)	(10.09)	(4.94)	(3.02)
	BBgBarc Gbl Agg Ex USD TR	(0.14)	(10.69)	(23.98)	(24.59)	(8.11)	(3.91)	(2.36)
REITs	FTSE Nareit All REITs TR	3.86	(15.17)	(25.57)	(19.77)	(0.86)	4.30	7.06
	Wilshire US REIT TR USD	4.13	(14.04)	(26.75)	(20.52)	(1.17)	3.91	6.67

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

Source: Morningstar

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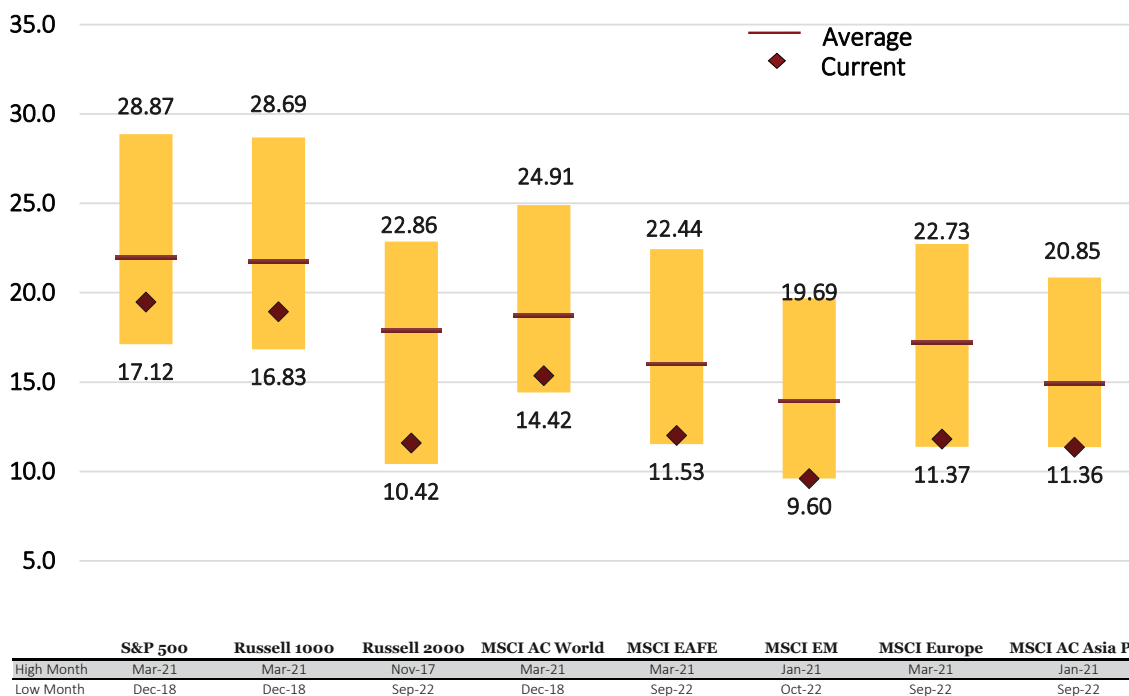
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## Current Trailing P/E vs. Trailing 5-Year High, Low, Average



Source: Morningstar

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates <sup>3</sup> per US \$		Inflation <sup>2</sup>
	Latest <sup>1</sup>	2022 <sup>1</sup>	2023 <sup>1</sup>	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
<b>United States</b>	2.60	1.50	0.50	3.70	4.15	-	-	6.60
<b>China</b>	3.90	3.20	4.70	5.50	2.72	7.25	6.39	0.60
<b>Japan</b>	0.90	1.60	1.40	2.60	0.25	147.68	113.38	3.00
<b>United Kingdom</b>	0.20	3.40	0.00	3.50	3.53	1.16	1.38	6.50
<b>Euro Area</b>	0.20	3.10	0.30	6.60	2.06	0.99	1.17	5.00
<b>Germany</b>	0.30	1.20	-0.70	5.50	2.29	1.00	1.17	4.60
<b>France</b>	0.20	2.60	0.60	7.40	2.82	0.99	1.17	4.50
<b>Italy</b>	0.50	3.40	0.40	7.90	4.46	1.00	1.17	5.30
<b>Canada</b>	0.80	3.40	1.50	5.20	3.51	1.36	1.23	6.00
<b>India</b>	-1.40	6.90	5.70	6.40	7.46	80.25	73.64	7.41
<b>Mexico</b>	1.00	2.10	1.50	3.30	9.84	19.82	20.33	8.28
<b>Brazil</b>	1.20	2.50	0.80	8.70	11.86	5.35	5.61	8.59

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)

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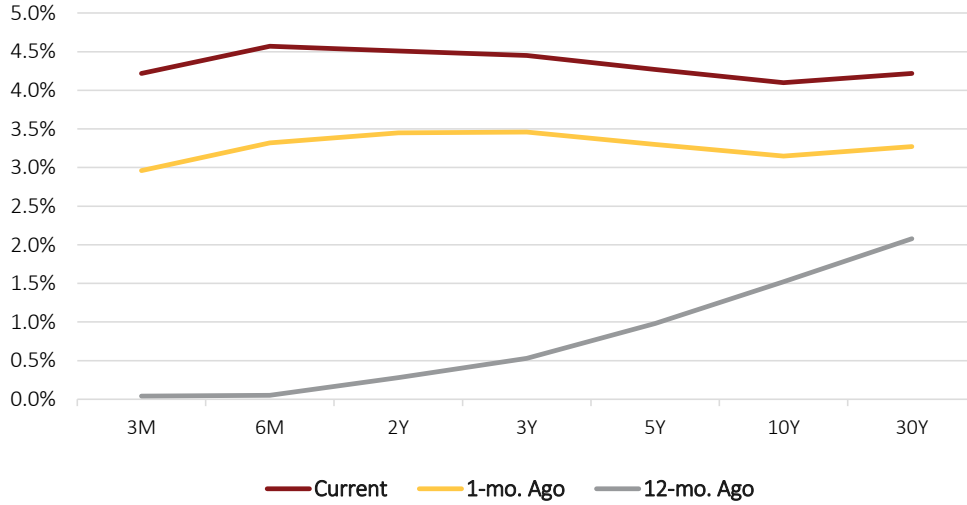
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## U.S. Treasury Yield Curves

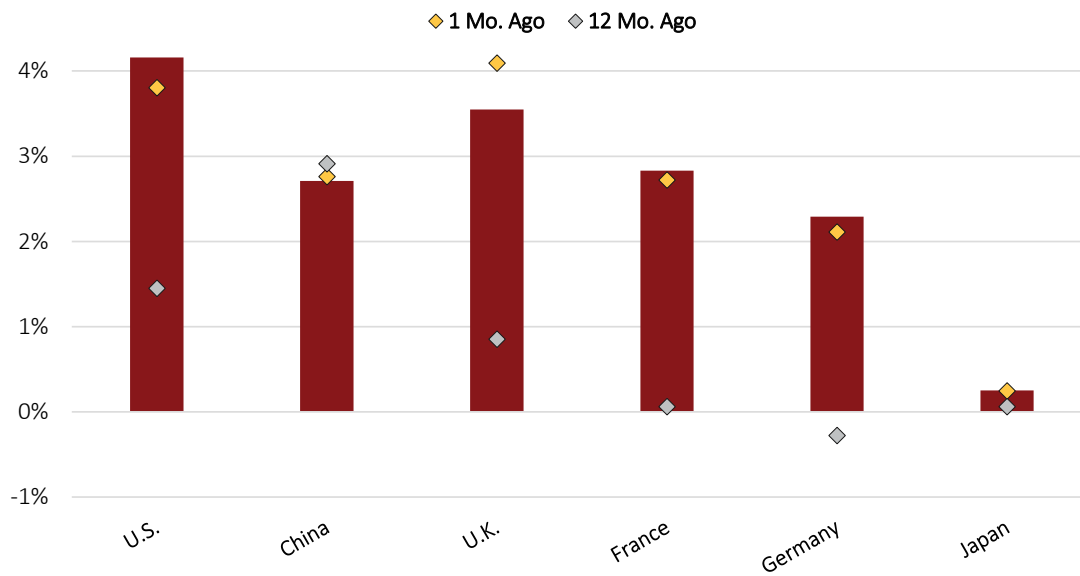
as of 10/31/2022



Source: Federal Reserve Bank

## 10-Year Sovereign Yields

as of 10/31/2022 (most recently available)



Source: Trading Economics

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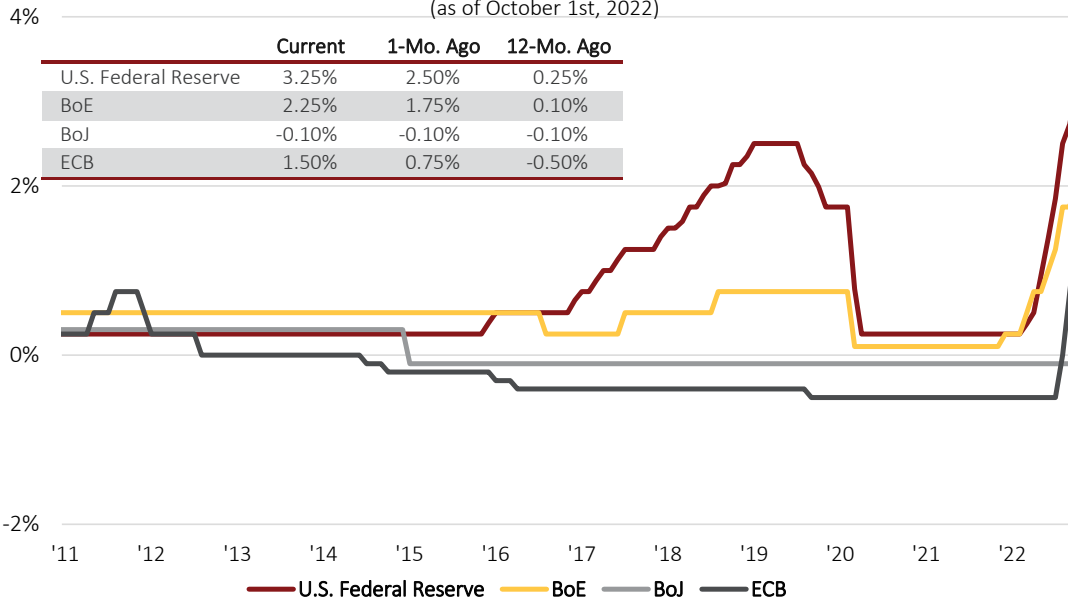
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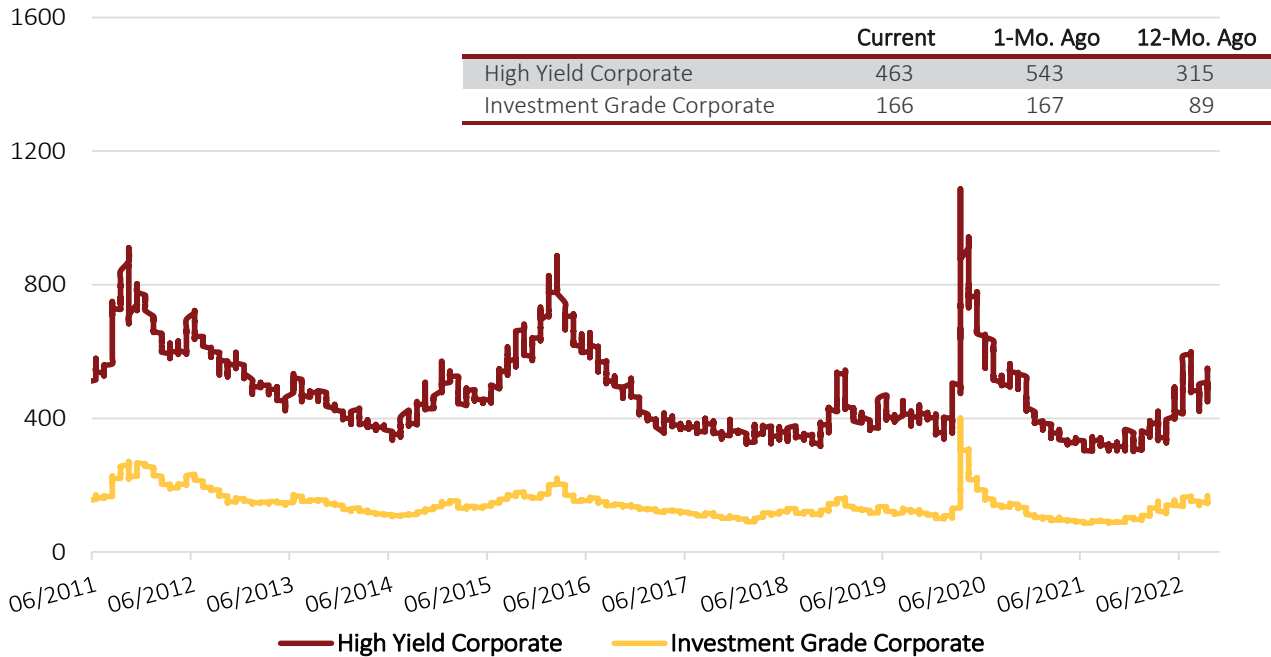
## Central Bank Policy Rates

(as of October 1st, 2022)



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

## Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank