Market Outlook
Third Quarter 2022

RETIREMENT PLAN ADVISORS

THE FUTURE IS BETTER THAN YOU THINK

MARKET SNAPSHOT

After a difficult first half of 2022, stocks bounced in July and August on investor hopes of easing inflation and a Fed pivot or pause. The reprieve was short-lived, however, as equities tumbled to fresh lows in late September amid further aggressive central bank rate hikes and statements of further tightening to come.

The S&P 500 dropped 4.88% for the quarter and is down 23.87% YTD. Developed international markets (MSCI EAFE Index) fell 9.36% for the quarter and 27.09% YTD. Emerging-market stocks (MSCI Emerging Markets Index) dropped 11.57% for the quarter and 27.16% YTD.

It's important to remember that all bear markets come to an end, and that the bottom occurs when things collectively feel worst. Investors who maintain a long-term focus and contribute to diversified, strategically allocated retirement portfolios will be well-positioned once current market volatility abates. Keep the faith, and stay the course.

Market Recap

After a very difficult first half of the year, equity markets rebounded in July and August on investor hopes of an easing in inflation and a Fed pivot or pause. The reprieve was short-lived, however, as stocks tumbled to fresh lows in late September amid further aggressive central bank rate hikes and statements of further tightening to come.

The S&P 500 dropped 4.88% for the quarter and is down 23.87% for the year. Developed international markets (MSCI EAFE Index) fell 9.36% for the quarter and 27.09% YTD. Emerging-market stocks (MSCI Emerging Markets Index) dropped 11.57% for the quarter and 27.16% YTD. Foreign stock market returns were negatively impacted by the sharp appreciation of the dollar. The U.S. Dollar Index was up 7.1% for the quarter and a stunning 17.3% on the year, hitting a 20-year high (for U.S.-based investors, a stronger U.S. dollar is a headwind to foreign equity returns).

Core investment-grade bonds didn't avoid the Q3 carnage. The 10-year Treasury yield hit a decade high of 3.97%, causing the Bloomberg U.S. Aggregate Bond Index (the "Agg") to drop 4.75%. This puts the "safe-haven" Agg down an incredible 14.61% YTD. In other segments of the fixed-income markets, high-yield bonds (ICE BofA Merrill Lynch U.S. High Yield Index) dropped 0.69% and floating-rate loans (Morningstar LSTA Leveraged Loan Index) gained 1.37% for the quarter. For the year to date, floating-rate loans have been one of the best performers, down just 3.25%.

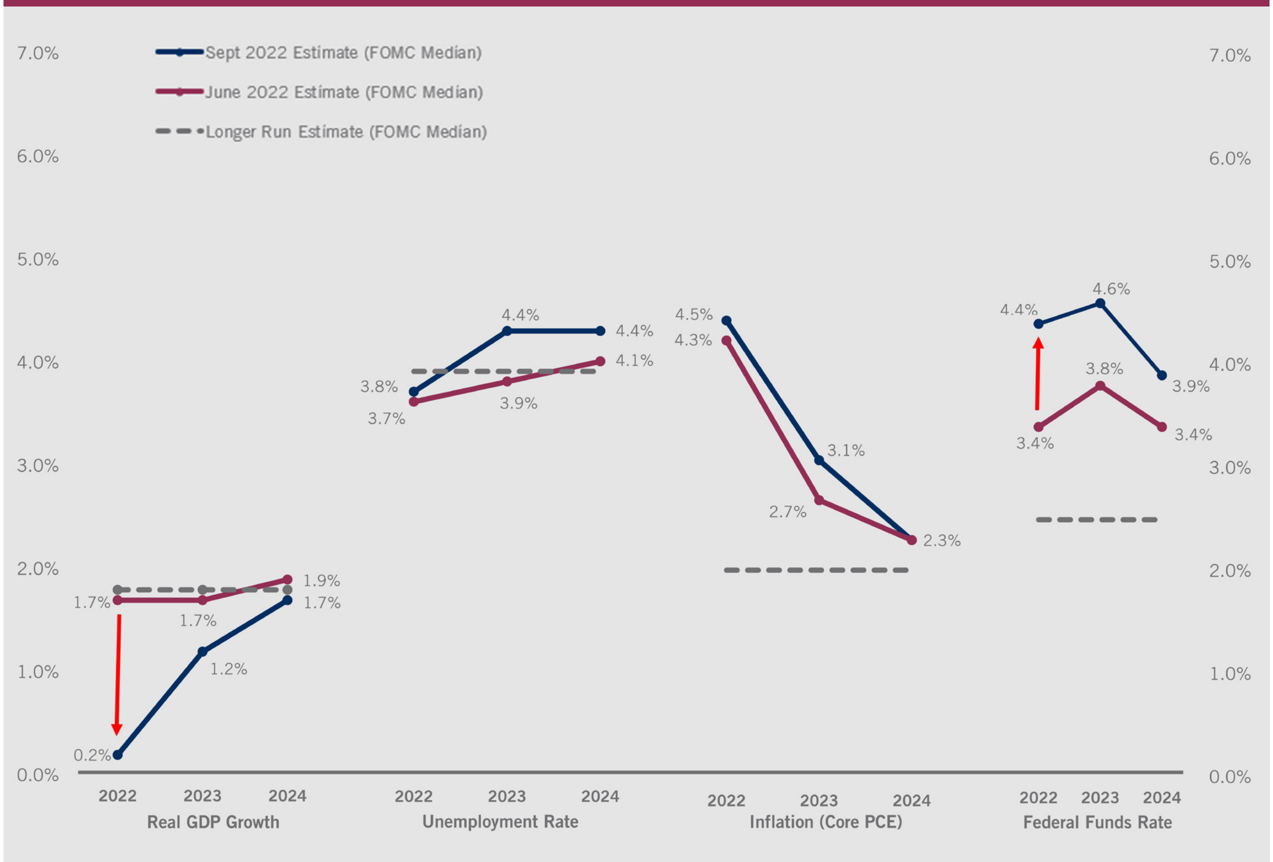
Investment Outlook and Portfolio Positioning

The economic backdrop for the U.S. and global economy deteriorated further in the third quarter. Stubbornly high inflation remains the key economic indicator. The Fed's response to the sharp spike in inflation has been to aggressively raise interest rates—their only means of bludgeoning economic activity to reduce aggregate demand and bring inflation in line with their longer-term targets. This has been the catalyst for the steep declines in both stocks and bonds.

While headline Consumer Price Index inflation (which includes food and energy) seems to have peaked, core inflation measures have continued to rise and are far above the Fed's 2% target. This indicates inflationary pressures have become more widespread throughout the economy, rather than driven by a few extreme outliers as in 2021.

Some of this broad-based core inflation is still due to the initial "transitory" COVID-related supply-side disruptions and production/distribution bottlenecks, which central banks can't do anything about. The good news is that many of these supply-chain disruptions are dissipating as the pandemic recedes globally. However, the demand-side drivers of core inflation in the U.S. have not yet peaked, let alone demonstrated the consistent month-over-month declines that Fed Chair Jerome Powell says the Fed is looking for as "clear evidence" inflation is headed to their 2% target. As such, and as expected, the Fed has continued its path of aggressive rate increases and signaled there is more to come.

The Hawkish Fed Projects More Rate Hikes and Economic Pain to Come



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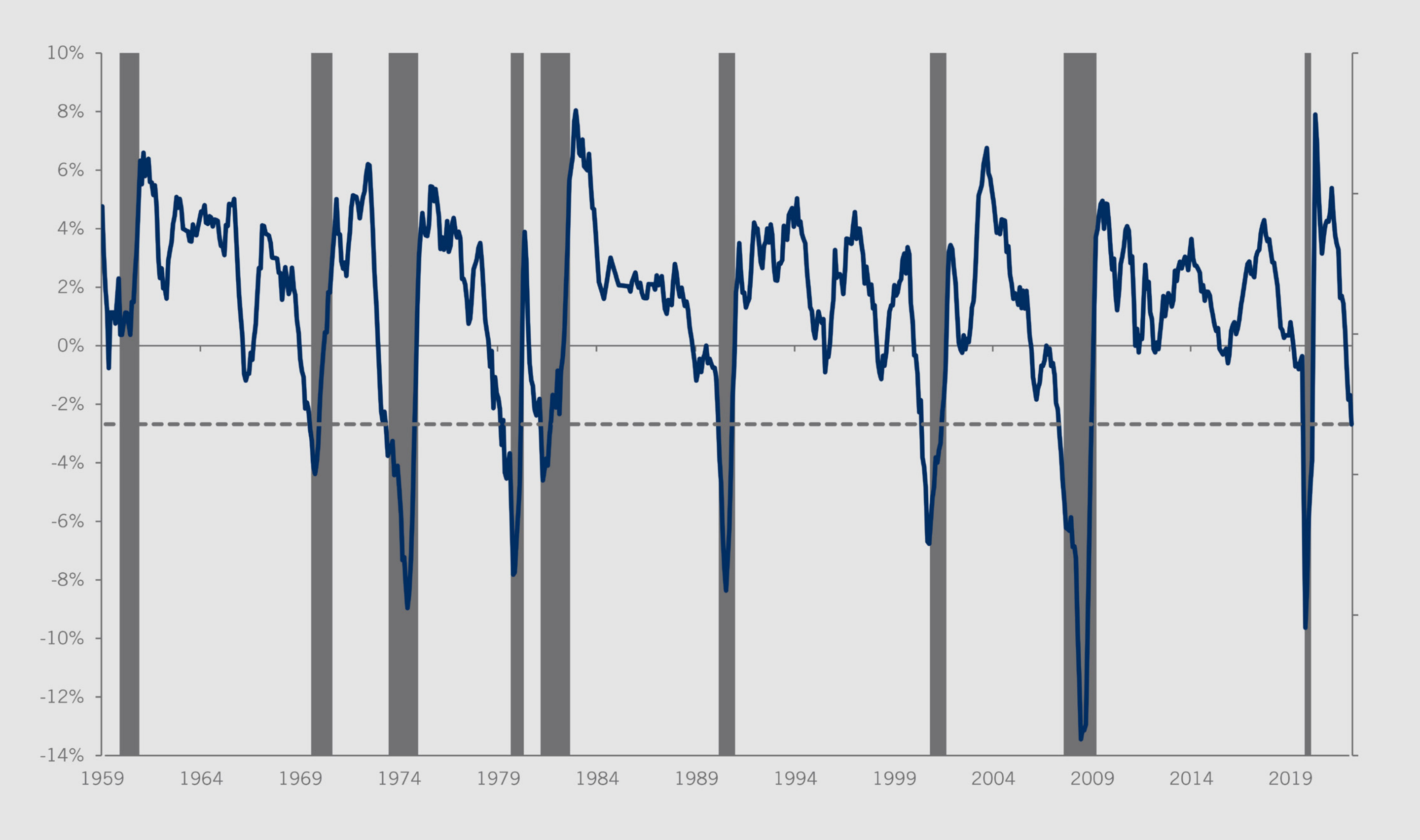
The Fed's current policy of higher interest rates will eventually slow GDP growth and increase unemployment. Whether the Fed can engineer an economic soft landing—where the U.S. economy slows sufficiently to tame inflation but does not fall into a deep recession with much higher unemployment—is unclear. Many historically reliable indicators, including the Leading Economic Index (see chart on following page) and a partially inverted yield curve, suggest a recession.

While we weigh the evidence as leaning toward a U.S. recession, there are still some positives supporting the economy which may mitigate the severity of a recession if/when one occurs, including a strong labor market, rising wages, and a strong U.S. consumer. Moreover, there don't appear to be any major, systemic economic/financial imbalances (unlike in 2007-08, for example).

Our focus is on longer-term fundamentals and valuations. and our analysis tells us that at current valuation levels, stocks may not be adequately discounting the potential for further earnings declines. That has led us to revise some of our underlying assumptions and reduce the return we expect from stocks over our five-year horizon. At the same time, the sharp increase in interest rates this year has driven bond yields up to more attractive levels—more attractive than they have been in about a decade. On a relative basis, core investment-grade bonds now look better versus stocks than at the start of the year. Further, core bonds should provide downside protection if conditions turn out to be worse than currently anticipated. The rate increases implemented by the Federal Reserve during 2022 may provide fixed-income managers better opportunities than those available during the ultra-low-rate environment of recent history.

The U.S. Leading Economic Index (LEI) is Signaling Recession is Likely



LEI shown is six-month rate of change for the index. Dashed line represents latest reading. Shaded regions represent NBER-defined recessions.

Closing Thoughts

It's been a tough year, with most investors (ourselves included) braced for more to come. But all bear markets come to an end, and it's worth remembering that the bottom is by definition the point at which things collectively feel worst. We think long term and remain confident both in the equity markets, and in our ability to deliver the long-term returns required to meet financial objectives while balancing risk.

In times of significant uncertainty within financial markets, remaining neutral in one's investment allocation is a prudent course of action. Participants who are able to block out the noise of market volatility today, stay the course, and maintain contributions will be among the best-positioned once they reach retirement. Though it is always painful to see the value of one's retirement plan decline in value, periods of market volatility provide investors the opportunity to purchase assets at lower prices that will provide improved opportunity for compounding of retirement savings.

As always, thank you for your continued confidence and trust.

Best regards,

Retirement Plan Advisors

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Market Indicators
Third Quarter 2022

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S&P Sectors

	QTR	YTD	1Y	5Y
S&P Technology Select Sector TR USD	-6.36	-31.18	-19.73	16.48
S&P Financial Select Sector TR USD	-3.10	-21.25	-17.65	5.47
S&P Consumer Disc Select Sector TR USD	3.89	-29.85	-20.01	10.88
S&P Health Care Select Sector TR USD	-5.18	-13.08	-3.37	10.16
S&P Industrial Select Sector TR USD	-4.72	-20.72	-13.87	5.14
S&P Cons Staples Select Sector TR USD	-6.95	-11.83	-0.49	7.31
S&P Energy Select Sector TR USD	1.65	33.94	44.49	6.10
S&P Utilities Select Sector TR USD	-5.99	-6.51	5.58	7.83
S&P Real Estate Select Sector TR USD	-11.03	-28.85	-16.37	5.81
S&P Materials Select Sector TR USD	-7.13	-23.74	-12.15	5.84
S&P Telecom Select Industry TR USD	-0.96	-23.80	-18.47	3.35

Market Returns

	QTR	YTD	1Y	5Y	10Y
S&P 500	-4.88	-23.87	-15.47	9.24	11.70
Russell Mid Cap	-3.44	-24.27	-19.39	6.48	10.30
Russell 2000	-2.19	-25.10	-23.50	3.56	8.55
MSCI EAFE	-9.36	-27.09	-25.13	-0.84	3.67
MSCI Emerging Markets	-11.57	-27.16	-28.11	-1.81	1.05
BBgBarc U.S. Agg Bond	-4.75	-14.61	-14.60	-0.27	0.89
High Yield	-0.65	-14.74	-14.14	1.57	3.94

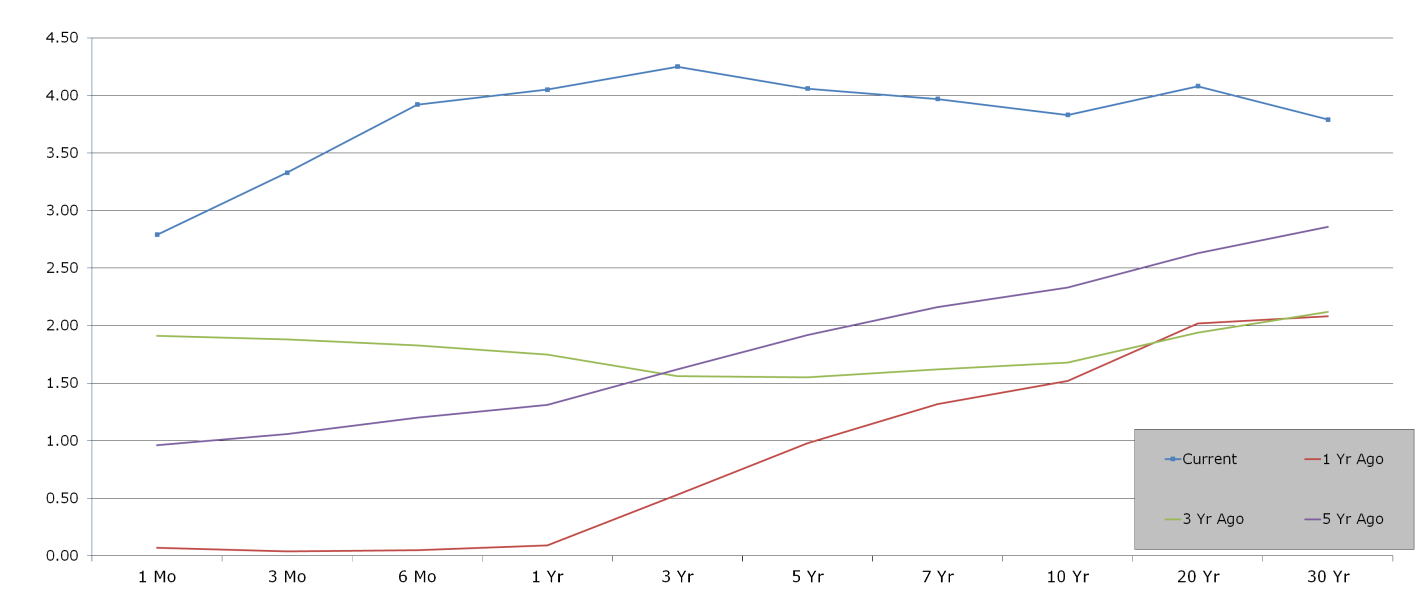
Value / Growth Returns

	YTD			Previous Calendar Year		
	Large	Mid	Small	Large	Mid	Small
Value	-16.56	-17.46	-21.05	24.90	30.65	28.77
Growth	-30.41	-25.48	-26.23	32.01	18.90	22.62

Index Characteristics

	LTM P/E	NTM P/E	Div Yld	Earn Yld
S&P 500	17.98	15.24	1.73	6.56%
Russell Mid Cap	14.93	12.40	1.60	8.06%
Russell 2000	10.42	10.32	1.47	9.69%
MSCI EAFE	11.53	10.75	5.38	9.30%
MSCI Emerging Markets	9.97	10.75	3.12	9.30%

Long-Term Outlook on Treasury Yield Curve



Source: Morningstar

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