QUARTERLY MARKET COMMENT
Third Quarter 2022

ALEXANDER FINANCIAL PLANNING

Who needs to go to a theme park to ride a roller coaster when the markets have become one? There just wasn't anywhere to hide this last quarter. The markets began the quarter with a great deal of optimism that inflation was topping until the real numbers came out. The Federal Reserve responded swiftly raising interest rates and with that, the markets moved in the opposite direction. I suppose it isn't a surprise, given that we are in an inflationary environment and with a majority of stock and bond markets in bear market territory (by definition down 20%), that we are seeing a sea of red spilling into year-to-date returns. The only asset class posting positive returns for the year through September 30th was commodities and they had begun to lose ground midway through the 2nd quarter. Two sectors, consumer discretionary and energy, posted positive returns for the 3rd quarter, up 4.36% and 2.35% respectively. Year to date the only sector posting positive returns is energy, up 34.94%.

The Federal Reserve's stance on fighting inflation by raising short-term interest rates took center stage in the 3rd quarter. Inflation has become more sticky, broad-based, and prevalent in the U.S. economy as well as around the world. The eurozone's annual rate of inflation hit 10% in September. The annual rate of inflation in the U.S. through September was 8.2%, slowing slightly from the month before but staying stubbornly high. The economy is starting to see some signs of the effects of the Fed's efforts to slow demand. The housing market has cooled with significantly higher borrowing costs and mortgage rates. People are starting to show signs of changes in their spending on goods. Declining commodity prices and improving supply chains should help to reduce inflation as well. On the flip side, demand for durable goods (items made to last several years) and many services (travel, entertainment, personal care, etc.) are still going full throttle. Demand for labor continues and is far outstripping supply at the moment. However, moving into the 4th quarter several employers have said they are pulling back on their job openings given the concern of a recession.

Asset Index Category	3Q 2022 %	Year 2022 %	5-Year Average %	10-Year Average %
S&P 500 Index-Large Companies	- 5.28	-24.77	4.18	8.34
S&P 400 Index-Mid-size Companies	- 2.88	-22.47	4.18	8.34
Russell 2000 Index-Sm Companies	- 2.53	-25.86	2.23	7.11
US Real Estate Funds	-10.66	-28.62	2.56	5.64
Gold	- 7.90	-9.31	4.18	-1.46
US Commodities	- 6.81	11.24	7.14	-1.83
Global Real Estate Funds	-12.24	-30.25	-0.47	2.96
MSCI EAFE-Developed International	-10.01	-28.88	-3.39	0.96
MSCI EM Index-Emerging Markets	-12.48	-28.91	-4.14	-1.34
Barclays US Aggregate Bond Index	-4.75	-14.61	-0.27	0.89
Long US Government Bond Index	-10.28	-30.22	-4.26	-2.43
Emerging Market Bond Index	-4.82	-21.54	-3.66	-1.06

Along with inflation, the dollar has soared in value this year as the Fed began to raise interest rates. It is up over 16% so far this year. While a positive dollar helps to fight domestic inflation, it increases the risk of global financial turmoil. A strong dollar also hurts the overall rates of return on international stocks and commodities. The Fed is more concerned about the impact of inflation near-term than the increasing strength of the dollar, or whether this will push us into a recession. The economy is still growing but slowing in different sectors. Some economists say we are already in a recession and others say we are heading into a recession next year. Whichever way you slice it, we are still going through a very uncomfortable time with heightened volatility. Recessions or contractions are a normal part of the business cycle. Coupling this with an inflationary environment makes the impact more intense.

At some point, the markets will resume an upward trend. We just don't know when. This is why a buy-hold strategy makes the most sense. We also know that the markets are a leading indicator and they turn up when the economy looks like it is at its worst point. In the meantime, our portfolio positioning will remain broadly diversified in the bond and equity markets. There is a continued emphasis on short-term duration in fixed income as we navigate these challenging times. Please know that we are here for you as your thinking partner, your resource, and your guide. We truly value you as our client and we are grateful for the trust you've placed in us to help guide you through your financial life.