Market Review Commentary

Third Quarter 2022

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EQUITY PERFORMANCE

Stocks and bonds both declined again in the third quarter marking the third consecutive quarterly decline for both stocks and bonds. The last time both stocks and bonds declined for three consecutive quarters was in 1976.[1]

FIGURE 1: THIRD CONSECUTIVE QUARTER WITH NEGATIVE RETURNS FOR BOTH STOCKS AND BONDS

Quarters With Both Negative Returns For Stocks and Bonds					
Quarter End	S&P 500®	Bloomberg U.S. Agg.	Quarter End	S&P 500®	Bloomberg U.S. Agg.
Mar-77	-8.4%	-0.8%	Mar-94	-4.4%	-2.9%
Dec-77	-1.5%	-0.1%	Jun-94	-0.3%	-1.0%
Dec-78	-6.3%	-1.4%	Mar-05	-2.6%	-0.5%
Dec-79	-1.3%	-3.1%	Jun-06	-1.9%	-0.1%
Mar-80	-5.4%	-8.7%	Jun-08	-3.2%	-1.0%
Jun-81	-3.5%	-0.3%	Sep-08	-8.9%	-0.5%
Sep-81	-11.5%	-4.1%	Jun-15	-0.2%	-1.7%
Jun-84	-3.8%	-2.1%	Mar-18	-1.2%	-1.5%
Mar-90	-3.8%	-0.8%	Mar-22	-4.9%	-5.9%
Mar-92	-3.2%	-1.3%	Jun-22	-16.4%	-3.9%
			Sep-22	-5.3%	-5.3%

Data is obtained from Strategas and is assumed to be reliable. ***Past performance is no guarantee of future results.***

The S&P 500 Index declined 4.88% for the quarter, bringing the year-to-date decline to continued bear market territory of -23.87%. Value stocks, as measured by the Russell 1000 Value Index, underperformed growth stocks, as measured by the Russell 1000 Growth Index, declining 5.62% versus -3.60% for the quarter, but year-to-date value is still outperforming growth declining 17.75% versus -30.66%. Overseas markets did not fare any better with the MSCI EAFE Index down 9.36% and the MSCI Emerging Markets Index down a whopping 11.57% for the quarter, bringing the year-to-date returns to -27.09% and -27.16%, respectively. Even high dividend-paying stocks, which had been holding up relatively well, came under pressure in the third quarter declining 7.74% (as measured by the MSCI USA High Dividend Yield Index). Small-capitalization stocks, as measured by the Russell 2000 Index, held up a little better for the quarter declining 2.19%, but they are still trailing large-capitalization stocks for the year-to-date with a return of -25.10%.

BOND PROTECTION?

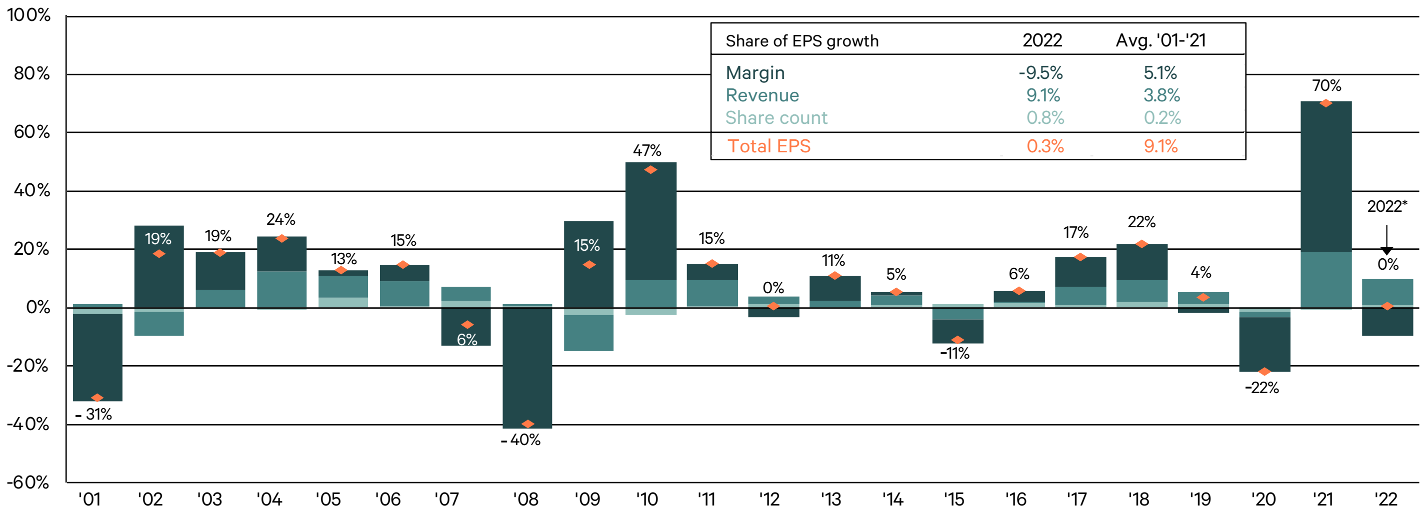
Bonds continued to provide no offset to investors' stock portfolios during the third quarter. The 10-year U.S. Treasury Yield was extremely volatile in the quarter, starting at 2.89% then declining until early August to 2.61% and then rocketing up and finishing the quarter at 3.80%. The two-year U.S. Treasury yield climbed from 2.83% to 4.20%. The increases in yield were in response to the Federal Reserve's reaction to the disappointing August Consumer Price Index (CPI) report.

The Bloomberg U.S. Aggregate Bond Index declined 4.75% for the quarter, bringing year-to-date losses to -14.61%. Investment grade bonds, as measured by the Bloomberg U.S. Government/Credit Index, declined 4.56% for the quarter and -15.10% for the year-to-date. Municipal bonds, as measured by the Bloomberg U.S. Municipal Bond Index, continued their descent falling 3.46% for the quarter and -12.13% for the year-to-date. Surprisingly, high yield bonds, as measured by the ICE BofA U.S. High Yield Index, held up a little better only declining 0.68% for the quarter and down 14.62% for the year-to-date. This has certainly been one of the most volatile quarters for fixed income investors in many years.

WHAT HAPPENED?

Markets were beginning to stage a nice rally from the middle of June to the middle of August, but it was short-circuited by a hotter-than-expected August CPI report. The report did not show enough improvement in the inflation rate and markets have discounted a further escalation in the hawkish Fed's rate outlook, incorporating in more future interest rate increases than previously believed. Of course, this means that the odds of a harder landing in the economy have gone up and the future earnings picture has become even more cloudy.

FIGURE 2: SOURCES OF EARNINGS PER SHARE GROWTH
S&P 500® Year-Over-Year Operating EPS Growth
Annual Growth Broken Into Revenue, Changes in Profit Margin & Changes in Share Count



*Data is as of September 30, 2022 and is obtained from Compustat, FactSet, Standard & Poor's and J.P. Morgan Asset Management and is assumed to be reliable. EPS levels are based on annual operating earnings per share. *2022 earnings figures are based on weekly operating earnings estimates from Standard & Poor's. Percentages may not sum due to rounding.* ***Past performance is no guarantee of future results.***

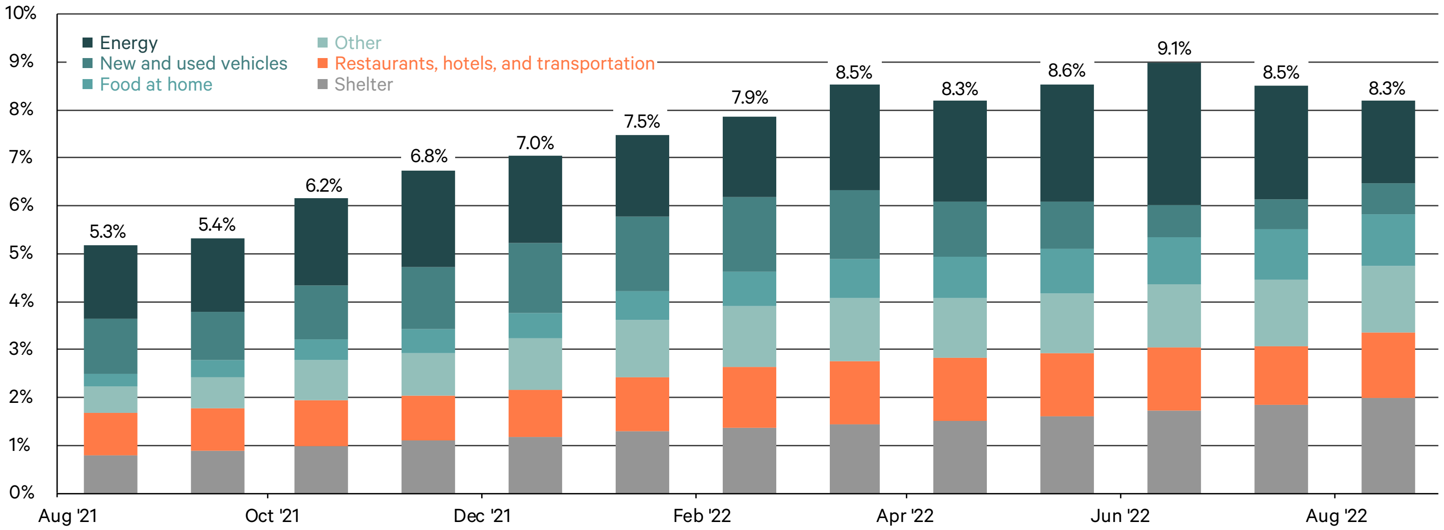
It seems like an overreaction by markets to one month of CPI data, but investors are on edge and hyper focused on reported inflation that is still too high. Unfortunately for investors, slowing corporate earnings growth, weakness in China and Europe, continued war in Ukraine, and uncertainty with looming mid-term elections are not the positives we need to offset the Fed's increased hawkishness.

WHERE DO WE GO FROM HERE?

We believe the plethora of bad news has led the stock market to a price level that already discounts a shallow-to-mild recession. However, simply put, equities will not bottom out until long-term bond yields (10 to 30 year) stop increasing. It was not a coincidence that stocks rallied from the middle of June until the middle of August when long-term yields were declining. We need a sustained decline in reported inflation statistics for this to happen. This seems likely at some point over the next six-to-twelve months.

Monetary policy is working—raw material prices are falling (including oil); housing and autos are being hit hard (including used car prices and even new recently); semiconductors have turned from a shortage to a surplus in many areas; and many companies are starting to shed workers.

FIGURE 3: CONTRIBUTORS TO HEADLINE INFLATION
Contribution to Y/Y% Change in CPI, Not Seasonally Adjusted

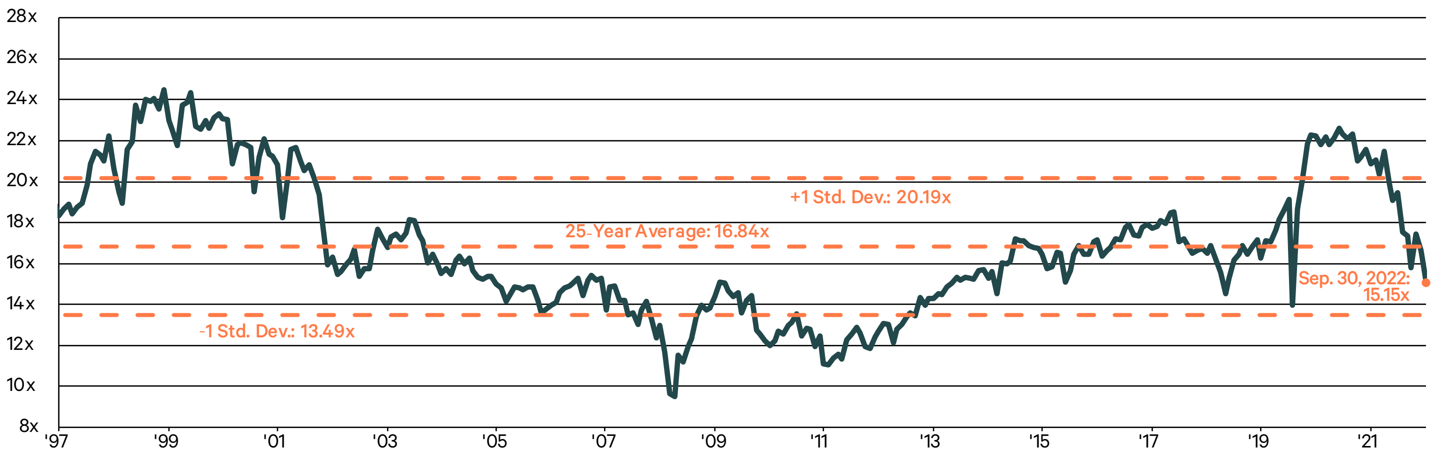


Data is as of September 30, 2022 and is obtained from the Bureau of Labor Statistics, FactSet, Federal Reserve Bank of Philadelphia, University of Michigan and J.P. Morgan Asset Management and is assumed to be reliable. Contributions mirror the BLS methodology on Table 7 of the CPI report. Values may not sum to headline CPI figures due to rounding and underlying calculations. "Shelter" includes owners equivalent rent and rent of primary residence. "Other" primarily reflects household furnishings, apparel, education and communication services, medical care services and other personal services. ***Past performance is no guarantee of future results.***

Supply chain difficulties, which the Fed cannot directly control, are improving as well, but the Russian war and China's zero-COVID policy continue to create some supply difficulties. Given pessimistic investor sentiment, bearish positioning, and many attractively valued companies on a long-term basis, any better-than-feared news on the course of future interest rate increases could cause the markets to substantially improve from here. Historically, periods of stock market pessimism with zero speculation in them have been good long-term entry points for patient investors. We believe very low IPO activity, de-SPACing, and forgotten meme stocks are good signs for long-term investors.

FIGURE 4: S&P 500® VALUATION MEASURES

S&P 500® Index: Forward P/E Ratio



Data is as of September 30, 2022 and is obtained from FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management and is assumed to be reliable. Price-to-earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months as provided by IBES since August 1997 and by FactSet since January 2022. Current next 12-months consensus earnings estimates are $241. Average P/E and standard deviations are calculated using 25 years of history. ***Past performance is no guarantee of future results.***

WHAT ARE WE DOING?

We continue to focus on the structural competitive advantages that our companies possess. From our perspective, quality historically holds up better if the economy gets meaningfully worse from here when investors refocus on cash flow, balance sheet strength, and earnings stability. In our experience, shake-out periods like this improve the long-term competitive environment.

As always, we thank you for your trust and confidence in managing your assets during these extremely difficult markets for stocks and bonds.

Douglas S. Foreman, CFA

Chief Investment Officer

Douglas S. Foreman, CFA is Chief Investment Officer, Portfolio Manager, and a member of the Executive Management Committee. He has approximately 36 years of investment experience.

[1]*Stocks, Bonds on Track for Rare Back-to-Back-to-Back Declines. The Wall Street Journal, September 30, 2022*

Large-capitalization stocks are represented by the S&P 500® Index which is a market capitalization weighted index which includes 500 of the largest companies in leading industries of the U.S. economy. Growth stocks are represented by the Russell 1000® Growth Index which is a market capitalization-weighted index of growth-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Value stocks are represented by the Russell 1000® Value Index which is a market capitalization-weighted index of value-oriented stocks of the 1,000 largest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. Small-capitalization stocks are represented by the Russell 2000® Index which is a market capitalization-weighted index of the 2,000 smallest companies in the Russell Universe, which comprises the 3,000 largest U.S. companies. The Bloomberg U.S. Aggregate Bond Index measures the U.S. investment grade fixed rate bond market. The index is calculated on a total return basis. The Bloomberg U.S. Government/Credit Bond Index is a broad-based flagship benchmark that measures the non-securitized component of the U.S. Aggregate Index. It includes investment grade, U.S. dollar-denominated, fixed-rate Treasuries, government related and corporate securities. The index is calculated on a total return basis. The index is unmanaged, its returns do not reflect any fees, expenses, or sales charges, and is not available for direct investment. The Bloomberg Municipal Bond Index is a market capitalization-weighted index that measures the long-term tax-exempt bond market. The index is calculated on a total return basis. The ICE BofA U.S. High Yield Index tracks the performance of below investment grade U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market and includes issues with a credit rating of BBB or below. The index is calculated on a total return basis. This report is based on the assumptions and analysis made and believed to be reasonable by Advisor. However, no assurance can be given that Advisor's opinions or expectations will be correct. This report is intended for informational purposes only and should not be considered a recommendation or solicitation to purchase securities. ***Past performance is no guarantee of future results.***