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# December 2022

## Market Update
(all values as of 11.30.2022)

### Stock Indices:

| | |
|---|---|
| Dow Jones | 34,589 |
| S&P 500 | 4,080 |
| Nasdaq | 11,468 |

### Bond Sector Yields:

| | |
|---|---|
| 2 Yr Treasury | 4.38% |
| 10 Yr Treasury | 3.68% |
| 10 Yr Municipal | 2.75% |
| High Yield | 8.46% |

### YTD Market Returns:

| | |
|---|---|
| Dow Jones | -4.81% |
| S&P 500 | -14.39% |
| Nasdaq | -26.70% |
| MSCI-EAFE | -16.78% |
| MSCI-Europe | -17.23% |
| MSCI-Pacific | -15.76% |
| MSCI-Emg Mkt | -21.08% |
| US Agg Bond | -12.62% |
| US Corp Bond | -15.39% |
| US Gov't Bond | -13.16% |

### Commodity Prices:

| | |
|---|---|
| Gold | 1,784 |
| Silver | 22.48 |
| Oil (WTI) | 80.52 |

### Currencies:

| | |
|---|---|
| Dollar / Euro | 1.03 |
| Dollar / Pound | 1.19 |
| Yen / Dollar | 138.48 |
| Canadian /Dollar | 0.74 |

**Macro Overview**

Markets reacted to indications that the Fed might slow its pace of rate increases heading into the new year. Such a change in monetary policy would be positively received by financial markets with the anticipation of eventual lower rates.

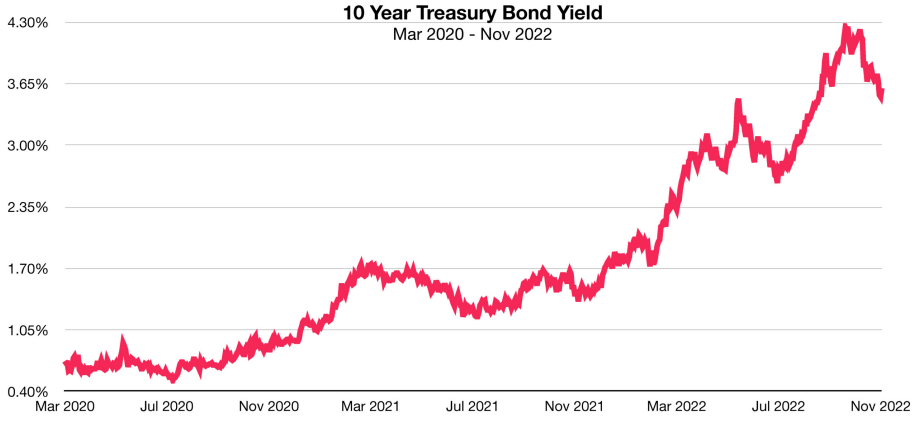
The supply chain constraints that existed this same time last year, have nearly been entirely eliminated. Production, shipping, labor, and material shortage issues were critical concerns during the height of the constraints. The alleviation of supply constraints has led to deep discounts by retailers which were widespread as retailers mark down prices on numerous items heading into the holiday season. Lower prices tend to dampen retail stock margins yet allow stores to reduce inventory and bring in consumer traffic.

The Federal Reserve's most recent survey of economic activity nationwide, known as the Beige Book, revealed weakening economic growth, tighter bank lending standards, and easing inflation. Slowing wage growth has also become more apparent as some companies announce layoffs and trim positions. Some analysts view these dynamics as deflationary as well as indicative of an ensuing economic slowdown.

A closely followed inflation indicator by the Fed, the Personal Consumer Expenditure Price Index (PCE), has been falling consistently since June. Data released by the BEA revealed a drop from 7 in June to 6 in October, signaling a drop in overall prices and inflation.

Recession fears continued to hinder markets from additional expansion, with growing concerns surrounding the labor market. John Williams, Federal Reserve President from the New York district, said that unemployment could reach 5% in 2023, up from 3.7% this past month. Regardless, the Fed's primary objective of stamping out inflation remains key, meaning any further rate increases could slow hiring and raise unemployment even more.

Yields on U.S. Treasury bonds fell modestly in November, a vital benchmark for mortgage and consumer loan rates. The 10 Year Treasury bond yield fell to 3.68% in November, down from 4.10% at the end of October. Lower yields tend to offer a reprieve for consumers and businesses nationwide.




Sources: U.S. Department of the Treasury, U.S. Federal Reserve Bank of New York, U.S. Bureau of Economic Analysis, U.S. Federal Reserve Bank of St. Louis

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1-YEAR TREASURY NOTE WAS 4.74% COMPARED TO 3.68% ON THE 10-YEAR TREASURY

**Equities Propelled By Lower Rate Expectations – Global Equity Update**

Equity markets rebounded in November as stabilization in rates and inflation stirred optimism that lower rates would eventually materialize. The Dow Jones Industrial Average, S&P 500 Index, and the Nasdaq all climbed modestly in November adding valuation to numerous stocks. Developed and emerging market equity markets outperformed U.S. equities in November, propelled by a weakening U.S. dollar as well as lower global interest rates.

Earnings continue to be a focus, especially for companies exposed to consumer sentiment and the economic environment. Many retailers have discounted heavily in preparation for a challenging holiday season. (Sources: Dow Jones, S&P, Nasdaq, Bloomberg, Reuters)

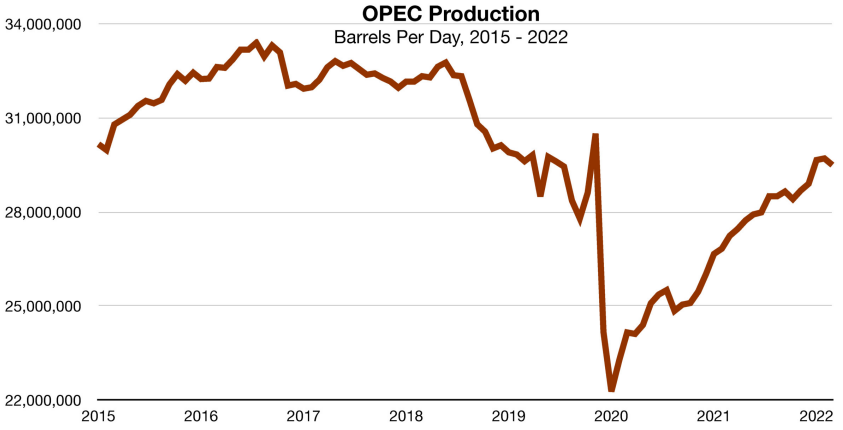
**Some Reprieve As Rates Fall Modestly – Fixed Income Overview**

With the new year approaching, the Fed is expected by many analysts to begin slowing its rate hike trajectory. Currently, the Fed Funds Rate range is 3.75% to 4.00%, up dramatically from its two-year stint at 0%. The benchmark 10 Year Treasury bond yield ended November at 3.68%, down from 4.10% at the end of October. Mortgage, as well as personal loan rates, also fell adding buoyancy to consumer demand.

Shorter-term maturity yields for Treasury bonds were still higher than longer-term Treasury bond yields at month end, representing an inverted yield curve indicative of probable slowing economic activity. Yields on the 1-year Treasury note was 4.74% compared to 3.68% on the 10-year Treasury bond on November 30th. (Sources: U.S. Department of the Treasury, Bloomberg, Reuters)

**OPEC Decides To Cut Oil Production – Oil Industry Overview**

The Organization of the Petroleum Exporting Countries (OPEC) is a group of nations that are the world's major oil producers, producing more than half of the world's crude oil. OPEC recently announced its largest cut to its production of oil since April 2020, dropping daily production by 2 million barrels. This decision is likely to raise gas prices for consumers across the globe and increases tension in already strenuous relations between Saudi Arabia and the United States.




Saudi Arabia, the de facto leader of OPEC, will voluntarily cut production while other OPEC members like Iraq may not be able to afford lower production levels. While Saudi Arabia denied that the production cut would harm Saudi-U.S. relations, U.S. officials see it as an act of aggression that may force a reconsideration of the already tense relations. U.S. officials also claim this to be Saudi Arabia siding with Russia, which has lost daily production of upwards of 1 million barrels per day due to its war with Ukraine. OPEC's production cut could undermine the efforts of Western countries to move away from Russian oil. (Sources: Wall Street Journal, U.S. Energy Information Administration, Organization of the Petroleum Exporting Countries, Federal Reserve Bank of St. Louis)

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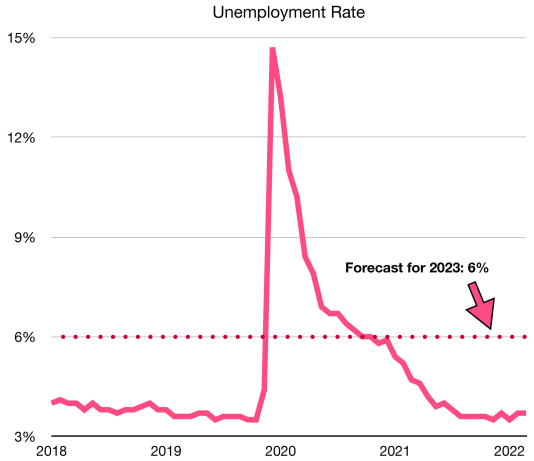
FOOD INFLATION AT 8.2% IS THE HIGHEST LEVEL SINCE THE 1980S

**Unemployment Rate is Expected to Rise Heading Into 2023 – Labor Market Update**

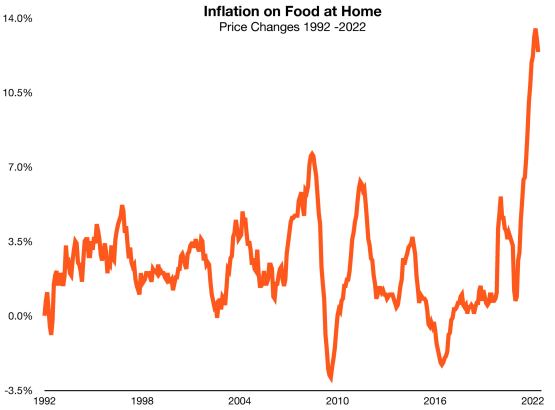
In September 2022, the unemployment rate hit 3.5%, its lowest point since the start of the pandemic. However, new Fed forecasts predict the unemployment rate to rise to 4.4%, which is too low by many estimates. A 4.4% unemployment rate, historically, is quite low. However, pre-pandemic unemployment rates hovered around 3.5%. Additionally, economists expect the true unemployment rate to breach the Fed's expectations and reach 5% as early as the first quarter of 2023. By the end of 2023, the unemployment rate is forecasted to be as high as 6%. In examining pre-pandemic years, a 6% unemployment rate would be a nearly decade-long high, last exhibited in 2014. Early warnings of this are starting, as exemplified by the new mass layoffs in the tech sector.




Essentially, the main reason for this high unemployment rate is the Fed's continuous increase in interest rates. These increases have pushed the U.S. economy further into a recessionary environment, and are still expected to continue. While the Fed may slow down its raises to only 0.5 or 0.25 basis points instead of their usual 0.75 increases, the writing on the wall indicates that it may soon be time to pause these increases. If the Fed does not reverse course, high unemployment and a recessionary environment that discourages spending may be on the horizon. (Sources: U.S. Bureau of Labor Statistics, Federal Reserve Bank of St. Louis)

**Elevated Food Inflation Continues – Consumer Demand Dynamics**

The most recent measure of food inflation is 8.2%, with 2022 inflation at the highest level since inflation in the 1980s, and the category seeing the harshest hikes appears to be food prices. Price jumps at grocery stores directly affect all consumers, pushing many to reconsider what they place in their shopping carts. Currently, several food categories are at all-time inflation highs, meaning the price spikes from last year to now are the highest ever recorded. At the top of these categories is food at employee sites and schools, which encompasses the likes of cafeteria food at public schools. This category is up 91.4% from a year ago. Other categories also seeing all-time high price jumps are butter and margarine which has spiked by 32.2%, flour which has spiked by 24.2%, soup which has jumped 20.5%, cereal which is up 17.7%, and canned fruits and vegetables which have increased 19%. An additional category seeing tremendous spikes is the price of eggs, which over the past year has risen 30.5%. These all-time high increases in food were a major factor of inflation measuring higher than expected. All of these common groceries have major effects on the decision-making of consumers. Due to inflation, consumers are increasingly only buying necessities and can be expected to ever further limit their purchases. Consumer spending makes up nearly 70% of GDP, so when consumer spending falls due to high prices, GDP can also be expected to fall. (Sources: U.S. Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve Bank of St. Louis)



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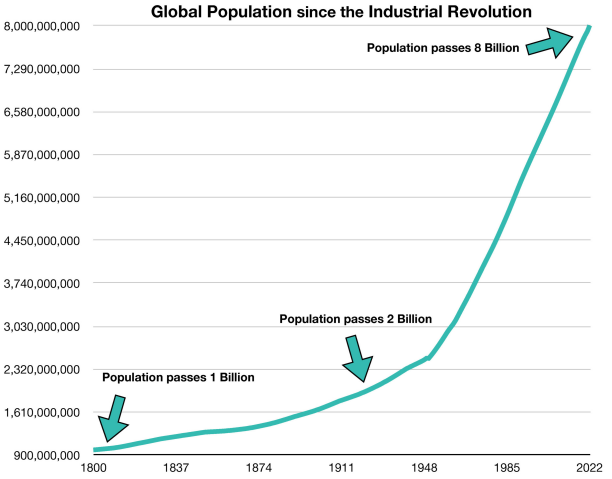
IN 1804, THE WORLD'S POPULATION REACHED 1 BILLION

**World Population Surpasses 8 Billion – Global Demographics**

In 1804, the world's population reached 1 billion people. In 1927, over a century later, it reached 2 billion. Now, just 11 years after it passed 7 billion, the world's population officially surpassed 8 billion people. This growth is not unprecedented, as overall growth rates have been decreasing since the 1960s. Growth rates are currently less than 1% and peaked at around 2.25% in 1964. Populous nations like China and the United States have seen lower growth rates in recent years, yet much of the less developed world is experiencing tremendous growth. About 70% of the growth from 7 to 8 billion was seen in low-income and lower-middle-income, which is expected to continue despite the scarcity of reproductive health care in these regions. Some of the lowest growth rates were exhibited in Europe, and the European population is expected to decline over the coming years.




As it currently stands, most of the world's population lives in Asia, with over 1.4 billion people living in both China and India, respectively. India is expected to surpass China as the world's most populous nation as early as 2023, with China struggling with historically low births in recent years. The world's third-most populous nation is the United States, in which over 330 million people live, followed by Indonesia, Pakistan, and Brazil. A major amount of the growth exhibited over the past decade has been in sub-Saharan Africa, where the population is expected to grow faster than the rest of the world for the next billion people as well. Global fertility rates are down globally, and high-income nations are seeing fewer young people under the age of 65. Overall, growth is expected to slow down, and even though it took only 11 years to go from 7 to 8 billion, it is projected to take 15 years to reach 9 billion and 22 to reach 10 billion. (Sources: United Nations; Our World in Data; World Economic Forum; U.S. Census Bureau)

**High Mortgage Rates Scare Away Potential Homebuyers – Housing Market Review**

Mortgage rates eclipsed 7% in late October 2022, their highest in over 20 years. This has discouraged countless potential buyers from purchasing a home and instead resorting to renting or staying where they currently live. Exorbitantly high rates are discouraging enough that the probability of individuals changing their primary residence in the next year has fallen to a record low. A survey conducted by the Federal Reserve Bank of New York highlights this fall in consumers' likelihood of moving homes. In March 2019, nearly 22% of people were likely to change their primary residence over the next year, which coincided with a strong faith in the economy and low mortgage rates of around 4%. However, as the pandemic disrupted this faith and a recessionary environment settled in late 2022, now only 14% of households are expected to change households over the next year. The Fed continues to deliberate whether to continue increasing interest rates, which have a tremendous effect on mortgage rates, yet now has a plethora of other factors to weigh in. Housing prices saw their first fall in over 10 years in 2022, as fewer buyers wish to pay mortgages at increasingly high rates. Lower spending rates in the housing market could also hint toward a grim economic outlook for 2023. (Sources: Census Bureau, Freddie Mac, Fed Bank of St. Louis)