

2022 Third Quarter Investment Market Report

Markets had a short-lived rally from mid-June to mid-August. Federal Reserve comments were received by investors as being potentially dovish and markets responded. The latest speeches from Federal Reserve representatives squashed those views and markets experienced more turmoil the second half of the quarter.

The rally was short lived, as volatility, inflation, and earnings concerns caused equity markets to retreat toward the lows of the year.

Looking at large cap stocks, the widely-quoted S&P 500 index of large U.S. company stocks lost 4.88% in the third quarter, and is down 23.87% so far this year.

The Russell 2000 Small-Cap Index is down 25.10% in the year's first nine months, and the technology-heavy Nasdaq Composite Index is showing a 32.00% loss so far this year. Technology stocks continue to experience greater downdrafts than the market as a whole.

	Quarter	YTD	1 Year	3 Years
S&P 500 Index (TR)	-4.88	-23.87	-15.47	8.16
Russell 2000 (TR)	-2.19	-25.10	-23.50	4.29
NASDAQ (TR)	-3.91	-32.00	-26.25	10.63

Source: Morningstar Direct; See disclosures for important benchmark information

Domestic equities fared slightly better than their international counterparts. The broad-based EAFE index of companies in developed foreign economies lost 9.36% in the third quarter, and now stands at a negative 27.09% return for the year so far. European stocks were a notable laggard driven by their proximity to Russia/Ukraine and reliance on Russian energy output. Emerging market stocks of less-developed countries, as represented by the EAFE EM index, also joined in the global decline, falling 11.57% in dollar terms in the third quarter, down 27.16% for the year.

	Quarter	YTD	1 Year	3 Years
MSCI EAFE (NR)	-9.36	-27.09	-25.13	-1.83
MSCI EM (NR)	-11.57	-27.16	-28.11	-2.07

Source: Morningstar Direct; See disclosures for important benchmark information

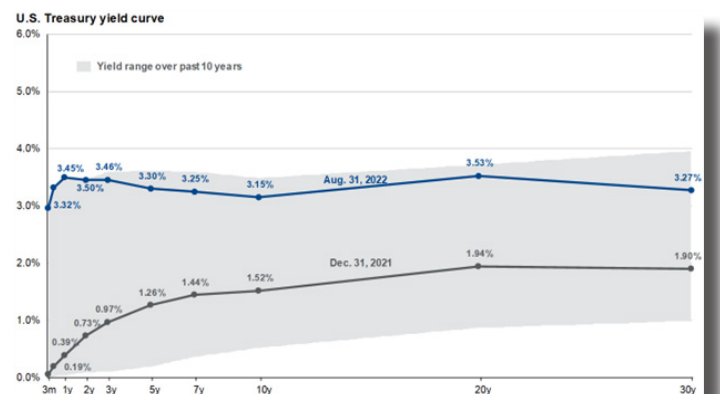
Looking over the other investment categories, commodities had a particularly challenging quarter. The S&P GSCI index, which measures commodities returns, lost 14.31% in the third quarter. For the year, the index is still up 8.30% but has lost most of its first-half strength.

In the fixed income landscape, coupon rates on 3-month and 6-month Treasuries now stand at 3.25% and 3.90% respectively, up from basically zero at various points last year and are much more attractive investments at current levels. Longer duration assets have also experienced rising rates through the year. Over the Quarter, the Bloomberg U.S. Aggregate Bond Index lost over 4% and is now down close to 15% year-to-date.

	Quarter	YTD	1 Year	3 Years
Bloomberg US Aggregate Bond (TR)	-4.75	-14.61	-14.60	-3.26

Source: Morningstar Direct; See disclosures for important benchmark information

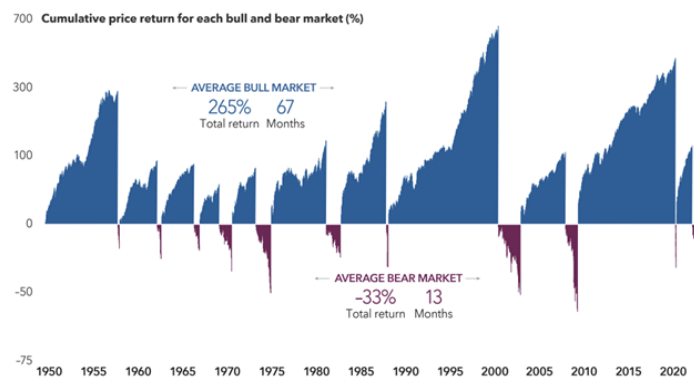
As has been the case in recent history, the yield curve finished the quarter inverted meaning shorter duration instruments are yielding more than the longer-term instruments.



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management Guide to the Markets Q4 2022

An inverted yield curve is historically viewed as a recession indicator and may be signaling that there is more turmoil ahead in capital markets. The brief runup in stocks through mid-August made some investors feel like the worst was behind them, only to return course and retest 2022 lows. Most remember the sharp market downturn of the Covid pandemic. It was an astonishingly quick drawdown but followed by a quick recovery. It was actually more significant of a drawdown than we are currently experiencing but was a much smaller time horizon. The first 9 months of this year remind us that every market and every economy is unique. At least part of the market volatility is attributable to the economic uncertainty. Low growth, high inflation, and tightening monetary policy have left a sour taste in investors' mouths and created some negative sentiment. It has also given investors reasons to question the earnings potential of publicly traded companies, which drives the market as a whole.

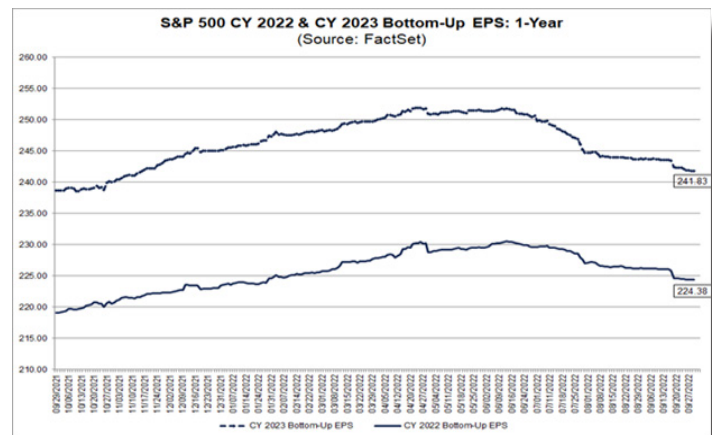
The good news is that with a long-term, disciplined, value-oriented approach, the Montis team is starting to see attractive opportunities developing. While the economic environment is one of uncertainty, we have ample evidence that these drawdowns are far shorter and typically lower in magnitude than the bull markets that have followed.



Source: Capital Group, RIMES, Standard & Poor's. As of 6/15/22.

Now 9 months into this bear market, starting to prepare and position portfolios for the next bull market is prudent. So, why have investors been so pessimistic? Part of the reason is fear of a recession and this fear is being supported by industry analysts who have been reducing their forecasts for 2022 and 2023 calendar year earnings.

While forecasts have been coming down, companies in the S&P 500 in aggregate are still growing their earnings at a positive rate. While earnings have held steady so far, prices have come down from elevated levels at the beginning of the year.



Source: FactSet, "Largest Cuts to EPS Estimates for S&P 500 Companies for Q3 2022 in More than Two Years," John Butters, September 30, 2022.

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Source: FactSet, FRB, Refinitiv Datastream, Robert Shiller, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management Guide to The Markets Q4 2022

As we consider future earnings, some uncertainty to continued growth has been driven by challenges all corporations are facing like inflation.

Inflation increases costs for companies and in order to maintain their earnings, they have to raise prices. One component of costs is the cost of labor: Salary.com recently reported that the median annual pay increase for American workers has risen to 4%, and hourly earnings overall are up 5.2%. This, of course, is the result of high employment rates--and one might imagine that these are positive trends for the health of the U.S. economy. Instead, as you may have noticed in your own reading, these developments are framed as a headwind for the companies that have had decades of growth with extremely low inflation.

It bears repeating that there are no guarantees in the investment world, but history suggests that market downturns represent a buying opportunity for the long-term, and that markets tend to overshoot the actual underlying conditions on the upside and (alas) also on the downside. There is an unfortunate tendency that we all share, where we look at recent history and somehow convince ourselves that it was obvious all along. But the future has plenty of uncertainty especially when we look ahead to the next few quarters. We look out a bit further, however, and we see that there have

been only two 10-year periods since 1941 when investors experienced a negative return--and those losses were very small. Markets have a long history of rewarding patient investors who buy during sell-offs.

Patient investors will accept the short-term losses as an opportunity. Sophisticated investors will be rebalancing into underperforming asset classes, or buying at attractive valuations. If history holds, they will ultimately experience the benefits of compounding and being opportunistic when others are fearful.

Financial Planning News:

President Biden signed the Inflation Reduction Act of 2022 on August 16. It's big and it seeks to address a host of financial issues, including the high cost of prescription drugs, healthcare availability, and climate change. Embedded in the legislation are tax credits and changes that may impact what you owe, and here is a short list of the major changes.

The Act is not designed to increase taxes on small businesses or families that make \$400,000 or less, though the actual tax impact has yet to be seen. Instead, the legislation targets some corporations, forcing them to pay more than they currently pay. For example, large businesses with more than \$1 billion in reported income would pay a minimum corporate tax rate of 15%. The Act also includes a 1% excise tax on corporate stock buybacks.

The new law also extends the expanded Affordable Care Act (ACA) program through 2025, so that eligible individuals and families who purchase their health insurance through the federal Health Insurance Marketplace can continue to benefit from lower health care premiums.

To support clean energy, the Inflation Reduction Act will, in some cases, provide new tax credits. Other energy-related tax credits will be extended--some of which could benefit homeowners. For example, the legislation includes a 10-year extension of the homeowner credit for solar projects, like rooftop solar panels. That tax credit could also benefit people who purchase energy-efficient water heaters, heat pumps, and HVAC systems.

The Inflation Reduction Act also contains provisions for electric vehicle tax credits. Essentially, existing tax credits for buying a new or used electric vehicle are extended for 10 years--until December 2032. Also, there will be an option, beginning in 2024, for car buyers to take the clean vehicle tax credit as a discount at the time of the car purchase.

As always with new legislation, stay tuned for updates and amendments. There are a number of short and long-term tax changes that may impact your taxes and this short summary doesn't even consider the changes that could come from the \$80 billion additional funding to the IRS or allowing Medicare to negotiate lower prices for prescription drugs. Certainly, more to come.



COMPANY NEWS!

We are thrilled to announce that Brian Burke has joined Montis Financial early in the second quarter as a Senior Financial Advisor! We are incredibly excited for Brian to help our client families achieve their financial goals through creation and implementation of comprehensive financial plans. Besides being a great fit with our team, Brian brings decades of experience in financial planning. For more information, please see Brian's full bio on our website, or reach out to him directly at bburke@montisfinancial.com. Welcome to the Montis family, Brian!!

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