Q3'2022 Market Review & Outlook

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- **US Equity Markets**: The S&P 500 decreased by -4.9% in the third quarter bringing the year-to-date decline to -23.9%. Through nine months, the stock market is having its worst start to a calendar year since 2002 and is still in bear market territory (a decline of -20% on a closing basis without a subsequent +20% increase). The market finished the quarter with a whimper as the S&P 500 closed at new year-to-date low of 3,586, a level it first reached in November 2020. The primary factors driving the market weakness still remain, including, inflation, the Fed tightening monetary policy, higher interest rates, the Russia/Ukrainian war, and China's Zero-Covid policy. More recently, we can add the potential European energy crisis and the United Kingdom's economic mess to the market's wall of worry.

- **US Fixed Income Markets**: The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, decreased by -4.8% in the quarter, bringing the year-to-date decline to -14.6%. The Agg had by far its worst ever start to a calendar year since inception of the index in 1976. Prior to 2022, the worst calendar year performance for the Agg was -2.9% in 1994. The negative performance was mostly caused by an increase in interest rates (bond prices move inversely to interest rates and credit spreads). Bonds have not provided ballast for most year as interest rates have increased, but we expect the negative correlation between stocks and bonds to return in the future once yields level out.

- **Treasury Yields**: The 2-Year Treasury yield increased by about 133 basis points to 4.28% as investors began pricing in more Fed rate hikes over the next few years. The 10-Year Treasury yield increased by about 81 basis points to 3.83% as expectations of inflation continued to move higher. The Treasury yield curve is currently inverted with 2-Year higher than the 10-Year yield.

- **Inflation**: The increase in inflation is driven primarily by supply chain bottlenecks, surging energy prices, strong consumer demand caused by a solid labor market, and massive amounts of stimulus. Although several readings have decelerated from peak levels, inflation is still far too high. We have seen moderation in energy, commodities, used vehicle prices, expectation surveys, and breakeven rates while stickier categories including wages, shelter, and food away from home remain elevated. The longer inflation stays persistent, the more likely it becomes that the Fed overtighten monetary policy and potentially cause a significant recession to finally bring it down.

- **The Fed**: The Fed has now firmly admitted that inflation is a problem and that they will tighten monetary policy to attempt to bring it under control. After raising interest rates by 0.75% at three consecutive meetings, the top-end of the federal funds rate now stands at 3.25%. Thus far in 2022, the FOMC has raised interest rates by 3.00% total, the largest calendar year increase since 1980. The Fed typically focuses on balancing maximum employment and stable prices, however, today the committee is hyper focused on bringing inflation down even if it means causing a recession. Fed Chair Powell recently admitted that higher interest rates will lead to a "sustained period of below-trend growth that will also bring some pain to households and businesses."

- **US Economy**: Our view is that the that the economy is slowing from the post-pandemic boom due to fading stimulus, rising inflation, Fed tightening, and surging commodity prices. The current period is best characterized by high inflation and a lot of uncertainty caused by Fed tightening expectations, the Russia/Ukraine War, and China's covid lockdowns. After increasing by +5.7% in 2021, Real GDP Growth is estimated at +1.6% in 2022 and +0.8% in 2023. Economic growth estimates have been decreasing over the past several weeks as economic indicators, consumer spending and confidence, and the housing market have all weakened while inflation has stayed elevated.

- **Market Outlook**: Our long-term outlook on the US equity market is more optimistic now than it was at the beginning of last year, given the decline. Historically, the S&P 500 has produced an annualized return of about +9.4% per year. We expect some reversion to the mean after periods of very strong or negative performance. In the short-term, our opinion is that for the market to reach a sustainable bottom, Fed tightening expectations need to soften, ideally through signs of disinflation. Over the long-term, we suspect this difficult economic environment has created a strong buying opportunity for investors willing to live with some short-term discomfort. At some point, the market will bottom and stocks will move higher. We believe those who were able to either stay invested, rebalance, or add to their existing holdings may eventually be rewarded. *Historically, equity markets have recovered from recessions and downturns; however, past performance is no guarantee of future returns. It is important to consider your own risk tolerance, financial circumstances, and time horizon.*

  Please see some of our most recent market commentaries:
  - Market Timing Does Not Work
  - Framework for Navigating Current Conditions
  - Cognitive Biases That Frequently Lead to Investment Mistakes
  - How often does the stock market decline?
  - Stagflation
  - Tax-Loss Harvesting

US EQUITY MARKETS

The S&P 500 decreased by -4.9% in the third quarter bringing the year-to-date decline to -23.9%. Through nine months, the stock market is having its worst start to a calendar year since 2002 and is still in bear market territory (a decline of -20% on a closing basis without a subsequent +20% increase). The market finished the quarter with a whimper as the S&P 500 closed at a new year-to-date low of 3,586, a level it first reached in November 2020.

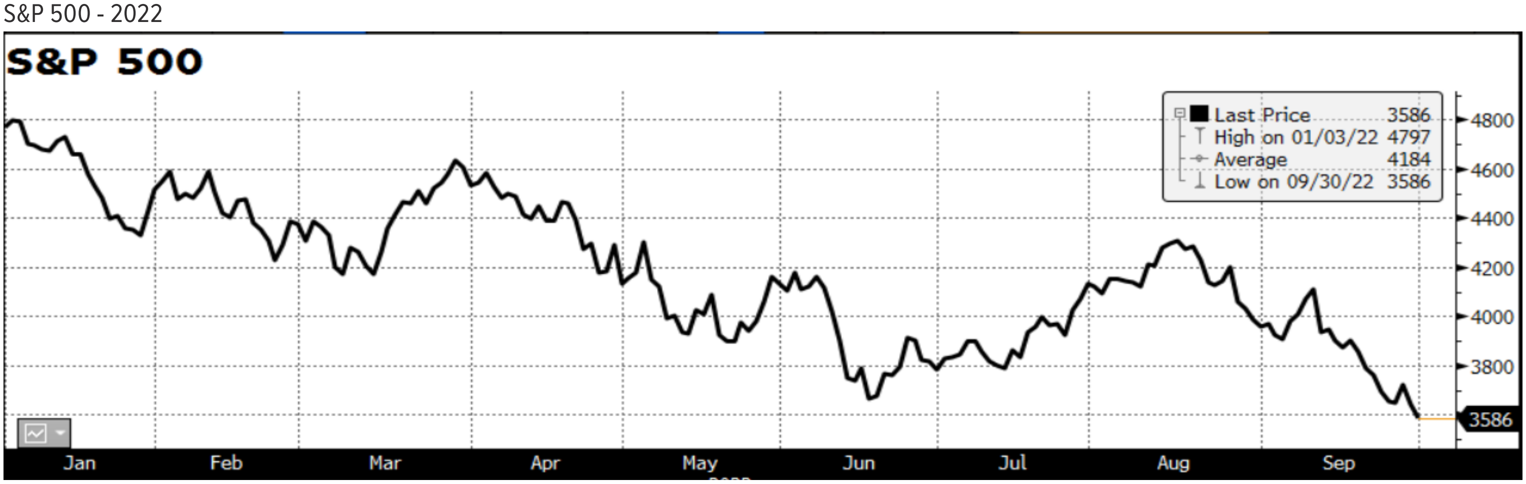
- **Market Cap**: Small Caps (-2.2%) and Mid (-2.5%) outperformed Large (-4.9%).
- **Style**: Growth (Russell 1000 Growth: -3.6%) exceeded Value (Russell 1000 Value: -5.6%).
- **Sector**: Nine of eleven sectors were negative in the quarter with Consumer Discretionary (+4.4%) and Energy (+2.2%) as the top performers, and Real Estate (-11.0%) and Communication Services (-12.7%) as the laggards.

US Equity Market Performance								
Broad Market	**Q3 2022**	**2022**	**Style**	**Q3 2022**	**2022**	**Sector**	**Q3 2022**	**2022**
S&P 500	-4.89%	-23.88%	Russell 1000 Growth	-3.60%	-30.66%	Industrials	-4.72%	-20.72%
Russell 3000	-4.47%	-24.63%	Russell 1000 Value	-5.63%	-17.78%	Health Care	-5.18%	-13.08%
Dow Jones Industrial Average	-6.17%	-19.72%				Utilities	-5.99%	-6.51%
Nasdaq	-3.91%	-31.99%				Technology	-6.21%	-31.44%
			Sector	**Q3 2022**	**2022**	Consumer Staples	-6.62%	-11.83%
Size	**Q3 2022**	**2022**	Consumer Discretionary	4.36%	-29.89%	Materials	-7.13%	-23.75%
Mid Cap (S&P 400)	-2.48%	-21.54%	Energy	2.16%	34.49%	Real Estate	-11.03%	-28.93%
Small Cap (Russell 2000)	-2.19%	-25.12%	Financials	-3.10%	-21.25%	Communication Services	-12.71%	-39.04%

Source: Bloomberg

The market staged an impressive rally from June to August, but it was snuffed out by higher-than-expected inflation data and the Fed's newfound resolve to raise interest rates to levels previously thought unlikely. The primary factors driving the market weakness still remain, including, inflation, the Fed tightening monetary policy, higher interest rates, the Russia/Ukrainian war, and China's Zero-Covid policy. More recently, we can add the potential European energy crisis and the United Kingdom's economic mess to the market's wall of worry. Apart from Energy, most equity region, country, market cap, or sector index is negative for the year and in many cases down by over -20%. While 2022 is shaping up to be a very difficult period for most equity asset classes, we will continue to remind our clients the power in maintaining a long-term viewpoint and that these periods have historically created strong buying opportunities. *It is important to consider your own risk tolerance, financial circumstances and time horizon.*

S&P 500 - 2022



Source: Bloomberg

Upcoming Market Catalysts

Here are a number of market moving data points and events that we are monitoring over the next several weeks:

▷ 10/4: BLS Job Openings Report (JOLTS) for August
▷ 10/7: BLS Employment Report for September
▷ 10/13: BLS CPI Inflation for September
▷ 10/14: Q3 Earnings Season (EPS est. of +3.2%, Factset)
▷ 10/27: Q3 GDP Report
▷ 11/2: FOMC Meeting
▷ 10/5: OPEC+ Meeting
▷ 10/12: FOMC Minutes from the 9/21 meeting
▷ 10/14: University of Michigan Inflation Expectations for October
▷ 10/27: European Central Bank Meeting
▷ 10/28: PCE Inflation for September
▷ 11/8: Mid-term Elections

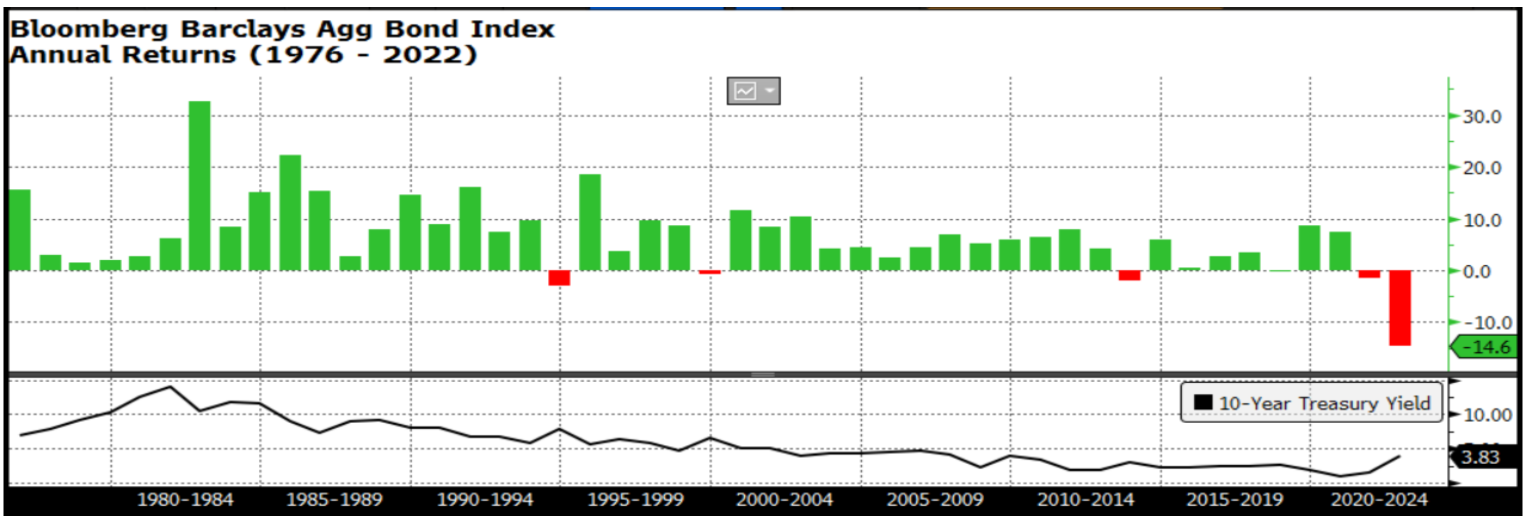
US FIXED INCOME MARKETS

The Bloomberg Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, decreased by -4.8% in the quarter, bringing the year-to-date decline to -14.6%. The Agg had by far its worst ever start to a calendar year since inception of the index in 1976. Prior to 2022, the worst calendar year performance for the Agg was -2.9% in 1994. The negative performance was mostly caused by an increase in interest rates (bond prices move inversely to interest rates and credit spreads).

Our objective with fixed income is to provide ballast, stability, and income to portfolios. Ballast means that, ideally, the fixed income holdings are increasing when equity markets are declining. Bonds have not provided ballast this year as interest rates have increased, but we expect the negative correlation between stocks and bonds to return in the future once yields level out. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Note that all else equal the fixed income markets need yields to stabilize rather than decrease from these levels to achieve positive returns. *Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.*

	Returns				Fundamental Estimates		
Bloomberg Barclays Index	**Q3 2022**	**2022**	**2021**	**2020**	**Yield to Maturity**	**Credit Spread (bps)**	**Duration**
Aggregate	-4.75%	-14.61%	-1.54%	7.51%	4.8%	62	6.1
Treasury Bills	0.48%	0.63%	0.04%	0.54%	2.9%		0.1
Corporates	-5.06%	-18.72%	-1.04%	9.89%	5.7%	159	7.0
High Yield	-0.65%	-14.74%	5.28%	7.11%	9.7%	552	4.1
Securitized MBS/ABS/CMBS	-5.20%	-13.45%	-1.04%	4.18%	4.9%	71	5.7
Munis	-3.46%	-12.13%	1.52%	5.21%	4.0%		7.2

Source: Bloomberg



Source: Bloomberg

Treasury Yields

The 2-Year Treasury yield increased by about 133 basis points to 4.28% as investors began pricing in more Fed rate hikes over the next few years. The 10-Year Treasury yield increased by about 81 basis points to 3.83% as expectations of inflation continued to move higher. The Treasury yield curve is currently inverted with 2-Year higher than the 10-Year yield. A yield curve inversion is the markets sign of a pessimistic economic outlook and typically signals that the market expects the Fed to cut rates soon. Today, the 2-Year yield indicates that investors expect the Fed to raise rates before cutting them over the next 24-months. If the Fed does cut rates as the market expects, the 2-Year yield will fall below the 10-Year and the yield curve will be upward sloping again.

We expect that interest rates will eventually hit a ceiling not too much higher than their recent peak levels due to low global interest rates, hesitancy from the Fed and Congress to see significantly higher yields with the amount of federal debt outstanding (Please see our Client Question on the Federal Debt), and a cap created by how high the FOMC will raise the federal funds rate. A break in inflation would likely signal that interest rates have hit their peak.

Yield to Maturity

The increase in interest rates and subsequent price decline has driven the yield to maturity of various bond indices to their highest levels in years. Yield to maturity is defined as the estimated annualized rate of return an investor can expect on a bond if purchased today and held to maturity, assuming the issuer makes all their interest and principal payments (i.e., no defaults). The yield to maturity on the US Aggregate Bond index increased to 4.8% at the end of the quarter, which is the highest level since 2008. In other words, future returns from the Agg bond index have not been this attractive in 14 years.

Inflation Update

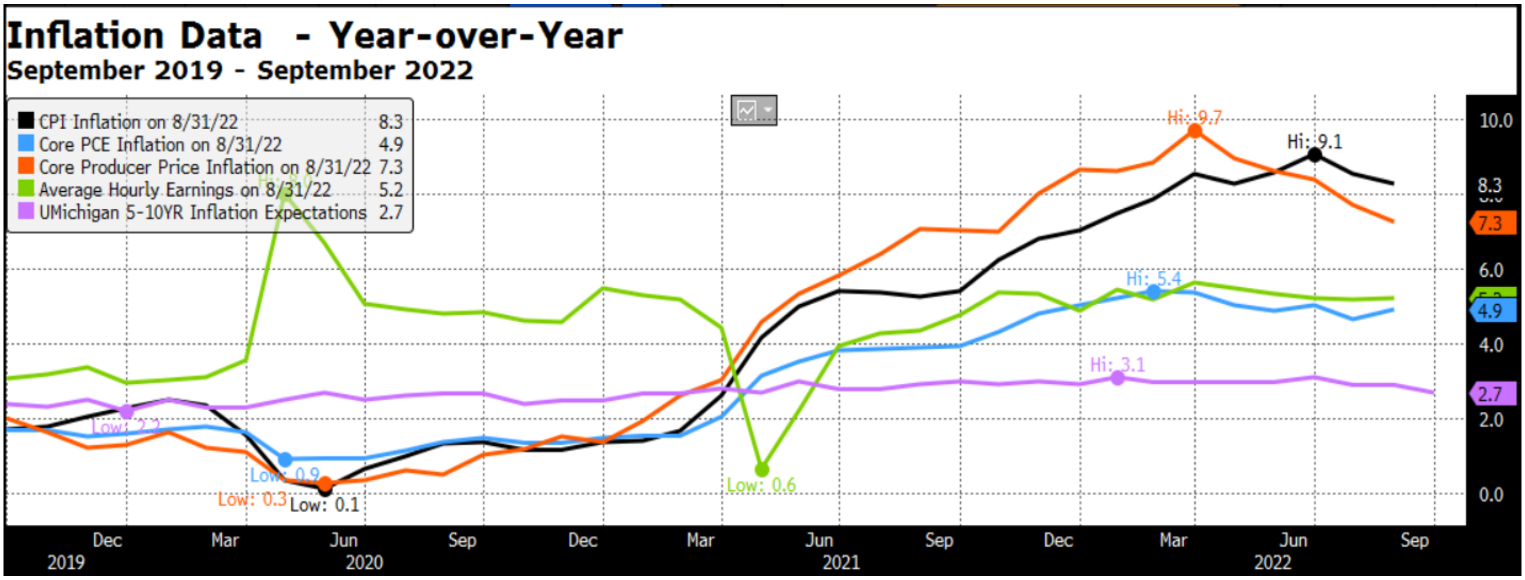
The increase in inflation is driven primarily by supply chain bottlenecks, surging energy prices, strong consumer demand caused by a solid labor market, and massive amounts of stimulus. Although several readings have decelerated from peak levels, inflation is still far too high. We have seen moderation in energy, commodities, used vehicle prices, expectation surveys, and breakeven rates while stickier categories including wages, shelter, and food away from home remain elevated.

Moving forward, the key will be how long it takes for disinflation to increase and the growth rate to move back toward more normal levels. The Fed would very much appreciate a strong period of disinflation, allowing them to slowdown the pace of tightening. Unfortunately, there has not been enough evidence yet and the wait continues.

We are still trying to combat the current rise in inflation by holding little cash in portfolios, avoiding long-term bonds, and overweighting equities of companies that are able to grow their cash flows, earnings, and dividends.

Here are several key inflation indicators and a chart tracking the data over the last three years:

- The Bureau of Labor Statistics Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The index does include food and energy prices.
  - o Latest Reading: 8.3% (August). Peak: 9.1% (June).
- The Core Personal Consumption Expenditure (PCE) Index measures the prices paid by consumers for goods and services based on surveys of what businesses are selling. Core means that the index excludes food and energy prices. This is the Fed's preferred inflation measure, which they target at an average of 2%.
  - o Latest Reading: 4.9% (August). Peak: 5.3% (February).
- The Core Producer Price Index (PPI) measures the average change in the selling prices received by domestic producers for their output. The prices included in the PPI are from the first commercial transaction for many products and some services.
  - o Latest Reading: 7.3% (August). Peak: 9.7% (March).
- The Bureau of Labor Statistics Average Hourly Earnings tracks total hourly renumeration (in cash or in kind) paid to employees in return for work done (or paid leave). Data is from the Current Employment Statistics (CES) survey.
  - o Latest Reading: 5.2% (August). Peak: 8.0% (April 2020).
- The University of Michigan Inflation Expectations data is based on a monthly survey designed to gauge consumer expectations. Participants are asked for their view on annual inflation over the next 5 to 10 years.
  - o Latest Reading: 2.7% (September). Peak: 3.1% (June).



Source: Bloomberg

THE FED

The Federal Reserve serves as the central bank of the United States and performs key functions designed to promote the health of the economy and stability of the financial system. The three key entities include the Board of Governors, twelve Federal Reserve Banks, and the Federal Open Market Committee (FOMC). The FOMC sets monetary policy in accordance with its mandate from Congress: to promote maximum employment, stable prices, and moderate long-term interest rates. According to the Fed, "monetary policy directly affects interest rates; it indirectly affects stock prices, wealth, and currency exchange rates. Through these channels, monetary policy influences spending, investment, production, employment, and inflation in the United States." Please see our **Client Question on The Fed** which details the key entities, and the impact monetary policy has on the economy, interest rates, and stock prices.

The Fed has now firmly admitted that inflation is a problem and that they will tighten monetary policy to attempt to bring it under control. The Fed's actions are designed to remove liquidity from the financial system to decrease overall demand for goods and services. A simple definition of inflation is, "too much money chasing too few goods." The Fed is now shrinking the amount of money available. The Fed tightening monetary policy and overall financial conditions by raising interest rates and shrinking the size of their balance sheet.

Interest Rates: After raising interest rates by 0.75% at three consecutive meetings, the top-end of the federal funds rate now stands at 3.25%. Thus far in 2022, the FOMC has raised interest rates by 3.00% total, the largest calendar year increase since 1980. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expected the federal funds rate to peak at 4.6% in 2023. The market expects the Fed will reach their peak rate by March 2023.

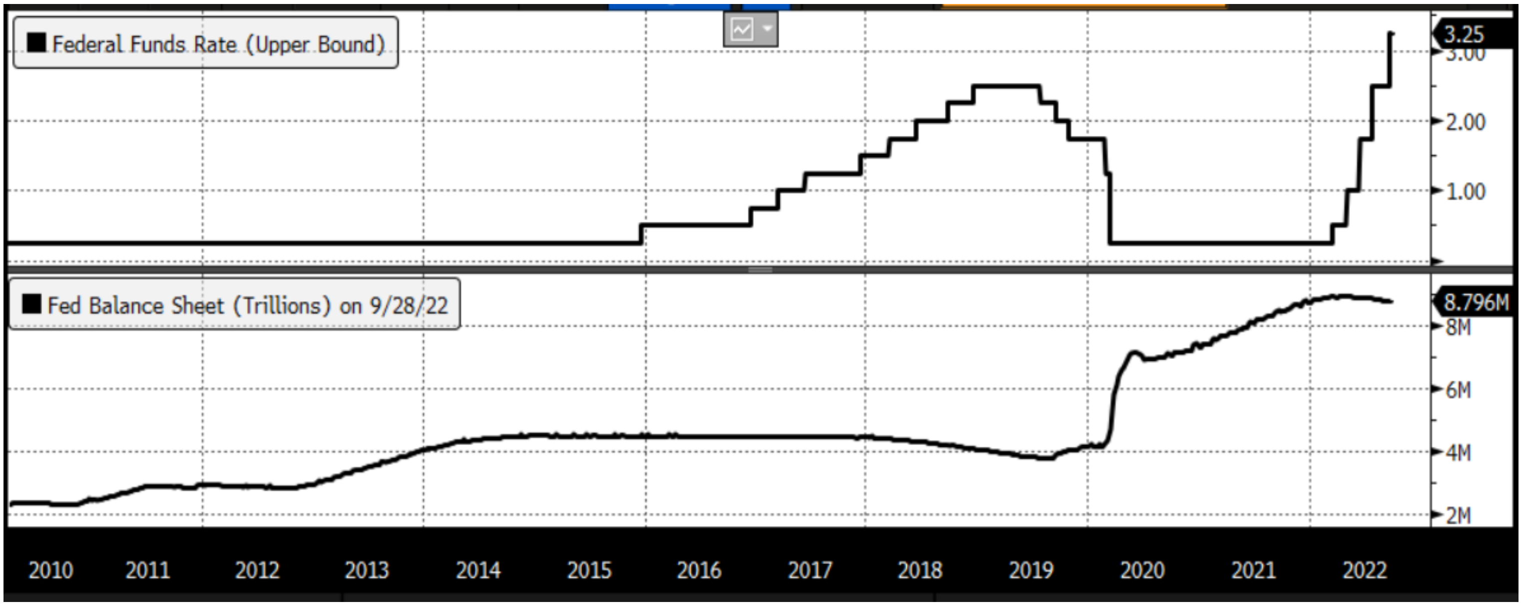
Balance Sheet – Quantitative Tightening: The Fed is also beginning to reduce the size of their nearly $9 trillion balance sheet. The runoff plan is for monthly caps of about $60 billion for Treasuries and $35 billion for agency mortgage-backed securities. The monthly reduction of about $95 billion is larger than the $50 billion per month pace that was used during the 2017-2019 runoff plan. At the current runoff rate, it will take over 4 years for the Fed's balance sheet to decrease to its pre-pandemic size.

The Fed's pivot to ultra-restrictive monetary policy this year has been jarring for financial markets. Only 21 months ago, the Fed was projecting that inflation would end 2022 under 2% and they would not raise rates until 2024. Now the Fed is projecting that inflation will not fall to 2% until after 2025 while interest rates will hit 4.6% in 2023.

The Fed typically focuses on balancing maximum employment and stable prices, however, today the committee is hyper focused on bringing inflation down even if it means causing a recession. Fed Chair Powell recently admitted that higher interest rates will lead to a "sustained period of below-trend growth that will also bring some pain to households and businesses." This is the Fed Chair's way of telling the American people to buckle up.

With hindsight it's clear that the Fed was wrong in their view that inflation was transitory, and the committee waited too long to tighten monetary policy. We will refrain from being overly critical of the Fed (and leave that to pundits) and focus on what matters most, which is analyzing what current and future monetary policy decisions mean for the markets, economy, and ultimately our clients. The Fed admits that monetary policy operates on a long and variable lag. Our sense is that the Fed is likely to overengineer by raising interest rates too high before quickly reversing course and cutting them in the face of a weakening economy. While the Fed is ready for "pain", they likely won't sit on their hands or continue to tighten in an undebatable recession. In other words, we expect the actual path of monetary policy to look a lot different than what the Fed is currently estimating.

Federal Funds Rate (Upper Bound) and Fed Balance Sheet Size (Trillions)



Source: Bloomberg

US ECONOMY

Our view is that the that the economy is slowing from the post-pandemic boom due to fading stimulus, rising inflation, Fed tightening, and surging commodity prices. The current period is best characterized by high inflation and a lot of uncertainty caused by Fed tightening expectations, the Russia/Ukraine War, and China's covid lockdowns.

After increasing by +5.7% in 2021, Real GDP Growth is estimated at +1.6% in 2022 and +0.8% in 2023. Economic growth estimates have been decreasing over the past several weeks as economic indicators, consumer spending and confidence, and the housing market have all weakened while inflation has stayed elevated. The economy can probably best be described as firing on one cylinder, the labor market. While the labor market continues to show signs of strength, we do expect the unemployment rate to tick up over the next few months as several major firms have begun to announce hiring freezes or layoffs. According to a recent PWC survey of over 700 executives, 50% of firms anticipate a reduction in headcount over the next 6 to 12 months.

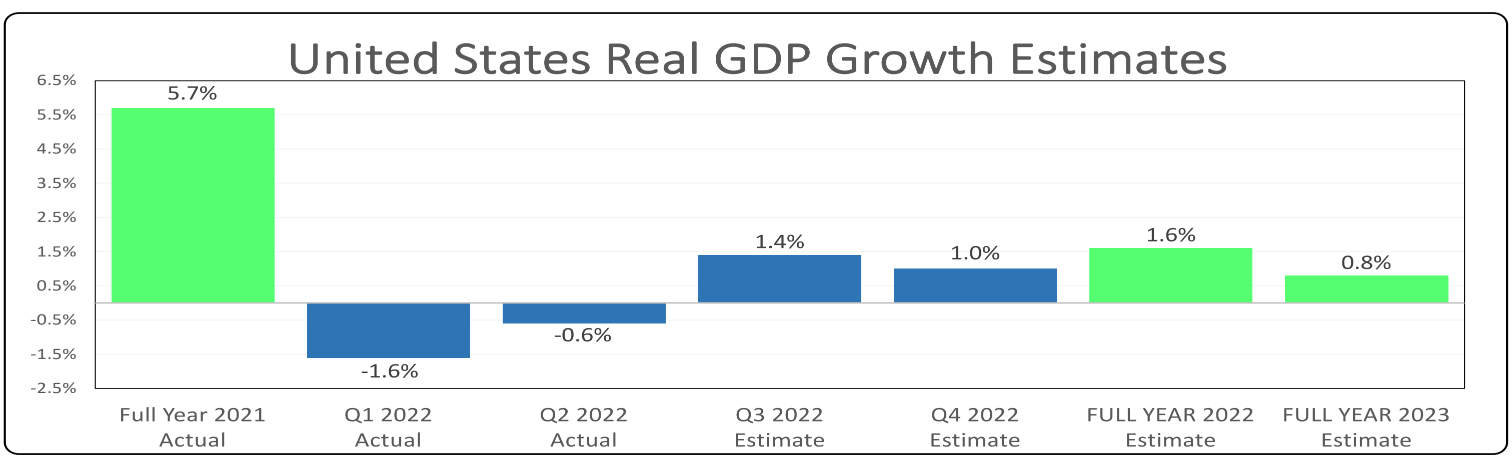
The open question is whether the economy is headed for a slowdown/mild recession or a more severe contraction. Right now, we see a slowdown/mild recession as the most probable outcome. However, the longer inflation stays elevated, the more likely it becomes that the Fed overtightens monetary policy and potentially causes a significant recession to finally bring it down.

The following table displays key economic data points and comparisons to recent readings and historical averages that we are watching to assess the health of the United State economy.

United States Economic Data

Data Point	Latest Reading	Historical Readings				Historical Averages				Source
		3-Months Ago		12-Months Ago		5-Year Average		10-Year Average		
Economic Indicators										
Leading Economic Indicators (Y/Y)	**-1.0%**	1.4%	↓	8.3%	↓	3.1%	↓	3.0%	↓	Conference Board
Financial Conditions Index	**-1.29**	-1.23	↓	1.00	↓	0.27	↓	0.25	↓	Bloomberg
ISM Manufacturing Index	**52.8**	53.0	↓	60.5	↓	55.9	↓	54.6	↓	Institute for Supply Mgmt
ISM Services Index	**51.8**	52.7	↓	60.7	↓	54.8	↓	54.8	↓	Institute for Supply Mgmt
Consumer										
Retail Sales (Y/Y)	**9.1%**	8.8%	↑	14.3%	↓	7.5%	↑	5.5%	↑	US Census Bureau
Michigan Consumer Sentiment	**58.6**	50.0	↑	72.8	↓	84.5	↓	86.3	↓	University of Michigan
Debt-to-Service Ratio	**9.6%**	9.1%	↑	9.2%	↑	9.5%	↑	9.7%	↓	Federal Reserve
Labor Market										
Unemployment Rate	**3.7%**	3.6%	↑	4.7%	↓	5.0%	↓	5.4%	↓	Bureau of Labor Statistics
Change in Nonfarm Payrolls	**315,000**	293,000	↑	424,000	↓	97,153	↑	153,160	↑	Bureau of Labor Statistics
JOLTS Job Openings	**11,239,000**	11,040,000	↑	10,673,000	↑	8,002,017	↑	6,553,407	↑	Bureau of Labor Statistics
Housing Market										
Existing Home Sales (Annual Rate)	**4,800,000**	5,110,000	↓	6,180,000	↓	5,587,300	↓	5,394,500	↓	Ntl Association of Realtors
Case-Shiller Home Price Index (Y/Y)	**16.1%**	18.7%	↓	19.1%	↓	9.0%	↑	8.1%	↑	S&P
30-Year Fixed Rate Mortgage	**7.1%**	5.6%	↑	3.2%	↑	3.9%	↑	3.9%	↑	Bankrate.com
Inflation										
Core PCE Inflation (Y/Y)	**4.9%**	5.0%	↓	3.9%	↑	2.5%	↑	2.0%	↑	Bureau of Econ Analysis
Consumer Price Index (Y/Y)	**8.3%**	9.1%	↓	5.4%	↑	3.3%	↑	2.3%	↑	Bureau of Labor Statistics
Average Hourly Earnings (Y/Y)	**5.2%**	5.2%	↑	4.8%	↑	4.0%	↑	3.1%	↑	Bureau of Labor Statistics

Source: Winthrop Wealth, Bloomberg



Source: Bloomberg

UNITED STATED RECESSIONS AND S&P 500

The National Bureau of Economic Research (NBER) Business Cycle Dating Committee is charged with maintaining official records of expansions and recessions in the United States. The NBER defines a recession as a significant decline in economic activity while an expansion is defined as a period where economic activity rises substantially. According to the NBER, since 1929 there have been 15 recessions in the US lasting an average of 13 months each.

In our opinion, the current environment likely achieves the NBER's definition of a recession, albeit a mild one for now. Real GDP increased by +6.9% in Q4 2021 before falling to -1.6% in Q1 2022 and -0.6% in Q2 2022. While the NBER does not view two consecutive negative quarters of GDP growth as a recession, the current period probably meets the test of a significant decline in economic activity. The NBER usually waits for several months after the fact to announce the official start and end dates for recessions. Therefore, it is possible the United States is already in a recession that started in earlier this year. Of course, not all recessions are created equal. The current economic period looks far better than past severe recessions like the Great Depression or Financial Crisis.

We will point out that recessions can have historically rewarded many long-term investors and can create strong near-term buying opportunities. During the last 15 recessions, the S&P 500 declined by an average of -30.0%. However, once the market bottomed, performance was very strong over subsequent 1-YR (+50.1%), 3-YR (+79.0%), and 5-YR (+142.1%) periods.

Of course, calling market tops and bottoms in real-time is extraordinarily difficult. In investing, perfect can be the enemy of good. While it would be nice to make the perfect investment at THE market bottom, we advise not letting that temptation stop you from making a good investment today. No one knows when the ultimate market bottom will occur since it can only be identified in hindsight (although this will not stop the pundits from guessing). If you believe the current environment is at least a good time to invest, then we suggest taking advantage by rebalancing, repositioning, or putting some new capital to work.

In the current period, the S&P 500 declined by -24.3% from January 3rd through September 30th as the market was beginning to price in a recession. We are not sure if September 30th marks the bottom for this period, however, in our opinion a decline of that magnitude creates opportunities for long-term investors. Unless your view is that this is the start of another Great Depression or Financial Crisis, then a lot of the damage in the equity market may have already occurred at the recent low. We are continuing to try and make lemonade out of lemons by tax-loss harvesting, repositioning, rebalancing, and putting money to work for clients who have recently contributed cash to their portfolios. While the market may have another leg lower, we suspect that over time we will look back on this period as another strong buying opportunity during a difficult economic environment.

United States Recessions			S&P 500 Performance						
Economic Growth Peak	Economic Growth Trough	Peak to Trough (Months)	S&P 500 Peak	S&P 500 Tough	Peak to Trough (Months)	Peak to Tough Decline	1-Year Post Trough	3-Year Post Trough	5-Year Post Trough
August 1929	March 1933	44	September 1929	June 1932	33	-86.2%	121.4%	117.7%	287.9%
May 1937	June 1938	13	March 1937	March 1938	13	-51.3%	34.8%	36.3%	82.8%
February 1945	October 1945	8	January 1945	January 1945	0	-3.5%	42.7%	24.9%	74.6%
November 1948	October 1949	11	June 1948	June 1949	12	-15.5%	59.9%	132.8%	206.8%
July 1953	May 1954	10	January 1953	September 1953	8	-12.4%	45.6%	137.3%	165.0%
August 1957	April 1958	8	July 1957	October 1957	3	-19.8%	36.2%	52.0%	68.9%
April 1960	February 1961	10	January 1960	October 1960	10	-11.1%	34.8%	55.9%	106.0%
December 1969	November 1970	11	May 1969	May 1970	13	-32.2%	48.9%	71.3%	56.1%
November 1973	March 1975	16	January 1973	October 1974	21	-44.8%	44.4%	76.4%	122.9%
January 1980	July 1980	6	February 1980	March 1980	1	-16.7%	44.4%	82.5%	133.5%
July 1981	November 1982	16	January 1981	August 1982	19	-19.1%	66.1%	111.0%	300.3%
July 1990	March 1991	8	July 1990	October 1990	3	-19.2%	33.5%	70.8%	126.4%
March 2001	November 2001	8	January 2001	September 2001	8	-29.1%	-11.1%	22.2%	49.7%
December 2007	June 2009	18	October 2007	March 2009	17	-55.2%	72.3%	115.0%	208.7%
February 2020	April 2020	2	February 2020	March 2020	1	-33.8%	77.8%		
Average (15)		13			11	-30.0%	50.1%	79.0%	142.1%
Median (15)		10			10	-19.8%	44.4%	73.8%	124.7%
Average (14. Ex. Great Depression)		11			9	-26.0%	45.0%	76.0%	130.9%
Median (14. Ex Great Depression)		10			9	-19.5%	44.4%	71.3%	122.9%

Source: National Bureau of Economic Research (NBER) and Bloomberg

OUTLOOK

Our market outlook is based on four pillars: Monetary Policy, Economic Growth, Corporate Earnings, and Valuation.

ECONOMIC GROWTH

- Our view is that the that the economy is slowing from the post-pandemic boom due to fading stimulus, rising inflation, Fed tightening, and surging commodity prices.
- Economic growth estimates have been decreasing over the past several weeks as economic indicators, consumer spending, and the housing market have all weakened while inflation has stayed elevated. While the labor market continues to show signs of strength, we do expect the unemployment rate to tick up over the next few months as several major firms have begun to announce hiring freezes or layoffs.
- The open question is whether the economy is headed for a slowdown/mild recession or a more severe contraction. The longer inflation stays elevated, the more likely it becomes that the Fed will have to overtighten monetary policy and potentially cause a significant recession to finally bring it down.

Real GDP Estimates:
- 2022: +1.6%
- 2023: +0.8%
- 2023: +1.6%

MONETARY POLICY

The Fed has now firmly admitted that inflation is a problem and that they will tighten monetary policy to attempt to bring it under control. The Fed will tighten monetary policy and overall financial conditions by raising interest rates and shrinking the size of their balance sheet.

- Interest Rates: After raising interest rates by 0.75% at three consecutive meetings, the top-end of the federal funds rate now stands at 3.25%. The FOMC's most recent Summary of Economic Projections (SEP) showed that the median participant expected the federal funds rate to peak at 4.6% in 2023.

- Balance Sheet Runoff Plan: The plan is shrink the balance sheet by $95 billion per month ($60 billion for Treasuries and $35 billion for agency mortgage-backed securities).

The Fed's pivot to restrictive monetary policy this year has been jarring for financial markets. Our sense is that the Fed is likely to overengineer by raising interest rates too high before quickly reversing course and cutting them in the face of a weakening economy.

CORPORATE EARNINGS

S&P 500 earnings estimates were cut over the last several weeks as economic headwinds mount. Third quarter earnings season, which kicks off in mid-October, will be critically important to assess how corporations are navigating the current environment and for their outlook on future conditions.

S&P 500 Earnings Estimates
- 2022: $224 (+8%)
- 2023: $242 (+8%)
- 2024: $263 (+9%)

Over long time periods, earnings drive stock prices.

VALUATION

Most valuation measures look attractive after the market decline. We will caution that if earnings estimates get lowered, the current P/E ratio is still inflated.

The P/E ratio is calculated as the current price divided by the earnings-per-share.

- Forward P/E (next 12-months): 15.2x.
- 25-Year Average: 16.8x.

Valuation analysis is subjective and typically based on interest rates, earnings growth estimates, and historical or relative values.

Our outlook has not changed since last quarter as the primary factors driving the market weakness still remain, including, inflation, the Fed tightening monetary policy, higher interest rates, the Russia/Ukrainian war, and China's Zero-Covid policy. More recently, we can add the potential European energy crisis and the United Kingdom's economic mess to the market's wall of worry. All of these factors occurring simultaneously has created the most difficult investment environment since the Global Financial Crisis outside of the first few weeks of he pandemic.

Our long-term view on the US equity market is more optimistic now than it was at the beginning of the year, given the decline. Historically, the S&P 500 has produced an annualized return of about +9.4% per year. We expect some reversion to the mean after periods of very strong or negative performance. In the short-term, our opinion is that for the market to reach a sustainable bottom, Fed tightening expectations need to soften, ideally through signs of disinflation. Over the long-term, we suspect this difficult economic environment has created a strong buying opportunity for investors willing to live with some short-term discomfort. At some point, the market will bottom and stocks will move higher. We believe those who were able to either stay invested, rebalance, or add to their existing holdings will eventually be rewarded.

We are sticking with our investment philosophy of maintaining a long-term viewpoint as the present environment is very volatile and fluid. Given all the uncertainty, we are maintaining a disciplined approach while continuing to look for opportunities to tax loss harvest, reposition and rebalance portfolios, and selectively put money to work for clients that have recently made contributions to their accounts. We did take the opportunity to reposition many portfolios by increasing the equity percentage when the S&P 500 fell close to bear market territory. This was not an attempt to call the bottom, but rather to take advantage of a significant decline by rebalancing for long-term investors. We expect to have more opportunities to rebalance over the next several months as our base case is that volatility will continue.

At Winthrop Wealth, we believe the right mindset paired with a comprehensive financial plan and a thorough investment process can provide confidence in workng toward your long-term financial goals, especially during times of heightened market volatility. We help our clients navigate challenging markets by seeking to ensure ensure their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio. By having two to three years of scheduled cash flows invested in ultra-short fixed income, we seek to decrease the likelihood that we will need to sell out of risk assets after a market decline to fund distributions. Please see our recent Client Questions that can help put things into context:

- ▷ Market Timing Does Not Work
- ▷ Why do interest rates impact stock prices?
- ▷ Cognitive Biases That Frequently Lead to Investment Mistakes
- ▷ How often does the stock market decline?

During periods of market volatility, we follow the same playbook and convey the same messages. At Winthrop Wealth, we follow a Total Net Worth Approach and we believe the right mindset paired with a comprehensive financial plan and a thorough investment process can provide confidence in working toward your long-term financial goals, especially during times of heightened market volatility.

The Right Mindset – Take a long-term viewpoint and avoid the impulse to market time

> *"Don't try to buy at the bottom and sell at the top. It can't be done - except by liars." -Bernard Baruch*

Market volatility is stressful and controlling your emotions during these periods is critical. Market timing decisions are often emotional rather than rational and data based. Making sudden large adjustments to portfolios can be value destructive over time and a major reason for poor investor performance. Please see our Client Question titled Market Timing Does Not Work, where we discuss that: the stock market has historically increased over time despite frequent drawdowns, the average investor underperforms due to market timing mistakes, and the benefit of a diversified portfolio and a long time horizon. *Investors should be aware that no strategy assures success or protects against loss and market cycles may not correspond to your individual needs.*

Financial Plan

> *"The best way to measure your investing success is not by whether you're beating the market but by whether you've put in place a financial plan and behavioral discipline that are likely to get you where you want to go." -Benjamin Graham*

We believe that financial planning drives the investment strategy and provides a roadmap to each client's unique goals and objectives. The comprehensive financial plan defines cash flow needs, seeks to optimize account structures, considers tax mitigation and estate planning strategies, and helps to evaluate financial risks as circumstances and/or goals change.

We also stress test the financial plan for many different environments including extreme volatility and market declines. The financial plan does not assume perpetually strong markets and linear returns. Rather it assumes that your portfolio will go through periods of weakness throughout your investment time horizon. We often update financial plans during and after volatility to quantify the impact the market decline had on the client's pursuit of their long-term goals and objectives.

Investment Process

> *"Good times teach only bad lessons: that investing is easy, that you know its secrets, and that you needn't worry about risk. The most valuable lessons are learned in tough times." -Howard Marks*

Our investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. We help our clients navigate challenging markets by seeking to ensure their short-term cash flow needs are met while managing the rest of their investments in a globally diversified portfolio.

Market volatility can be used to our advantage by tax-loss harvesting or reallocating to more attractive securities:

- **Tax-loss Harvesting**: Tax-loss harvesting is achieved by selling an investment with a loss and immediately purchasing a different security with similar (but not identical) exposure. The loss on the sold security can be used to offset taxable gains. Since we simultaneously sell a security to capture a loss and purchase a different holding with similar exposure, the client is never out of the market. We seek to capture losses during declines, and as the market recovers the new position also recovers PLUS the client has a tax-loss to offset future gains. Please see our Client Question on Tax Loss Harvesting.

- **Repositioning Portfolios**: Repositioning portfolios means that we can increase the overall equity allocation and/or reallocate among various asset classes. During a market selloff, portfolio equity allocations often fall below their target levels. For example, assume a portfolio is invested to its target allocation of 60% equities and then the stock market declines -10%. The new allocation would be about 54% or -6% below the target level. We can use the market decline as an opportunity to buy stocks at lower prices to bring the allocation back to the 60% target level. Furthermore, we can rotate to the equity asset classes that have become more attractive (for equities, we allocate across regions, countries, market caps, factors, styles, sectors, and industries). Keep in mind, some of the best buying opportunities have historically occurred during periods of market turmoil. *Rebalancing a portfolio may cause investors to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.*

THIRD QUARTER 2022 MARKET RETURNS

US Equity											
Index	**3rd Quarter**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	-4.89%	-23.88%	28.68%	18.39%	31.47%	-4.39%	-15.50%	8.13%	9.22%	11.68%	9.83%
Russell 3000	-4.47%	-24.63%	25.64%	20.88%	31.01%	-5.25%	-17.65%	7.67%	8.60%	11.37%	9.91%
Dow Jones Industrial Average	-6.17%	-19.72%	20.95%	9.72%	25.34%	-3.48%	-13.40%	4.35%	7.42%	10.44%	9.51%
Nasdaq	-3.91%	-31.99%	22.21%	45.05%	36.74%	-2.81%	-26.23%	10.68%	11.29%	14.29%	12.82%
S&P 400	-2.48%	-21.54%	24.73%	13.65%	26.17%	-11.10%	-15.29%	5.98%	5.79%	10.01%	10.38%
Russell 2000	-2.19%	-25.12%	14.78%	19.93%	25.49%	-11.03%	-23.53%	4.25%	3.52%	8.53%	9.33%
Russell 1000 Growth	-3.60%	-30.66%	27.59%	38.49%	36.39%	-1.51%	-22.59%	10.66%	12.16%	13.69%	11.01%
Russell 1000 Value	-5.63%	-17.78%	25.12%	2.78%	26.52%	-8.28%	-11.40%	4.32%	5.26%	9.15%	8.64%
International Equity											
MSCI Index	**August**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	-9.36%	-27.09%	11.26%	7.82%	22.01%	-13.79%	-25.13%	-1.83%	-0.84%	3.67%	5.91%
Europe	-10.53%	-33.11%	13.54%	7.89%	23.20%	-16.90%	-30.66%	-3.94%	-3.25%	3.35%	5.55%
Japan	-7.67%	-26.38%	1.71%	14.48%	19.61%	-12.88%	-29.30%	-2.64%	-0.63%	4.83%	4.28%
China	-22.50%	-31.23%	-21.72%	29.49%	23.46%	-18.88%	-35.40%	-7.17%	-5.55%	2.37%	9.86%
Emerging Markets	-11.57%	-27.16%	-2.54%	18.31%	18.42%	-14.57%	-28.11%	-2.06%	-1.81%	1.05%	8.73%
ACWI ex US	-9.91%	-26.50%	7.82%	10.65%	21.51%	-14.20%	-25.17%	-1.52%	-0.81%	3.00%	6.36%
US Fixed Income											
Bloomberg Barclays Index	**August**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	-4.75%	-14.61%	-1.54%	7.51%	8.72%	0.01%	-14.60%	-3.25%	-0.27%	0.89%	3.08%
Treasury Bills	0.48%	0.63%	0.04%	0.54%	2.21%	1.83%	0.64%	0.55%	1.10%	0.64%	1.18%
Corporates	-5.06%	-18.72%	-1.04%	9.89%	14.54%	-2.51%	-18.53%	-3.65%	-0.03%	1.70%	4.10%
Securitized MBS/ABS/CMBS	-5.20%	-13.45%	-1.04%	4.18%	6.44%	0.99%	-13.79%	-3.52%	-0.80%	0.58%	
High Yield	-0.65%	-14.74%	5.28%	7.11%	14.32%	-2.08%	-14.14%	-0.45%	1.57%	3.94%	7.40%
Munis	-3.46%	-12.13%	1.52%	5.21%	7.54%	1.28%	-11.50%	-1.85%	0.59%	1.79%	3.40%
US Equity Sectors											
Index	**August**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	-6.21%	-31.44%	34.52%	43.88%	50.27%	-0.30%	-20.00%	14.91%	16.72%	17.06%	14.25%
Real Estate	-11.03%	-28.93%	46.14%	-2.17%	29.00%	-2.23%	-16.49%	0.35%	5.75%	6.38%	
Industrials	-4.72%	-20.72%	21.10%	11.05%	29.32%	-13.32%	-13.88%	3.99%	4.85%	10.36%	9.20%
Energy	2.16%	34.49%	54.35%	-33.68%	11.81%	-18.10%	45.06%	13.23%	5.97%	3.46%	8.90%
Consumer Discretionary	4.36%	-29.89%	24.43%	33.30%	27.94%	0.82%	-20.89%	6.70%	10.50%	13.17%	11.06%
Communication Services	-12.71%	-39.04%	21.57%	23.61%	32.69%	-12.53%	-39.05%	-0.05%	1.95%	3.76%	7.73%
Consumer Staples	-6.62%	-11.83%	18.63%	10.75%	27.61%	-8.39%	-0.09%	6.23%	7.59%	9.50%	9.21%
Utilities	-5.99%	-6.51%	17.67%	0.52%	26.35%	4.11%	5.58%	3.67%	7.82%	9.85%	10.55%
Materials	-7.13%	-23.75%	27.28%	20.73%	24.58%	-14.70%	-12.16%	7.61%	5.89%	8.55%	9.40%
Financials	-3.10%	-21.25%	34.87%	-1.76%	32.09%	-13.04%	-17.69%	4.84%	5.41%	11.32%	5.26%
Health Care	-5.18%	-13.08%	26.13%	13.45%	20.82%	6.47%	-3.37%	12.45%	10.17%	13.67%	10.10%
	Calendar Year Returns						**Annualized Returns**				

Source: Bloomberg

DISCLOSURES

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

All indexes mentioned are unmanaged indexes which cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.
The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approxi¬mately 10% of the total market capitalization of the Russell 3000 Index.

The prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Bloomberg Barclays US Treasury Bills 1-3 Month Index is designed to measure the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 1 month and less than 3 months. The Index includes all publicly issued zero coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and at least 1 month, are rated investment grade, and have $300 million or more of outstanding face value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Rebalancing a portfolio may cause you to incur tax liabilities and/or transaction costs and does not assure a profit or protect against a loss.

Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio.

Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.

Securities offered through LPL Financial, Member FINRA/SIPC. Investment Advice offered through Winthrop Wealth, a Registered Investment Advisor and separate entity from LPL Financial.