NOVEMBER 2022 MARKET RECAP

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The equity market posted strong returns for the second consecutive month as the S&P 500 increased by +5.6% in November, bringing the year-to-date decline to -13.1%. Since reaching a closing low for the year of 3,577 on October 12th, the S&P is up by +14.4% since. Despite the strong performance over the last several weeks, the S&P 500 is still in bear market territory (a decline of -20% on a closing basis without a subsequent +20% increase) and now sits about -13.7% below the all-time high.

- **Market Cap**: Mid (+6.1%) outperformed Large (+5.6%) and Small (+2.3%) Caps.
- **Style**: Value (Russell 1000 Value: +6.3%) exceeded Growth (Russell 1000 Growth: +4.6%).
- **Sector**: All eleven sectors were positive in the month with Materials (+11.8%) and Industrials (+7.9%) as the top performers and Energy (+1.3%) and Consumer Discretionary (+1.0%) as the laggards.

While we are pleased with the market rebound since mid-October, we suspect we are not out of the woods yet. The primary risks causing the market turmoil still remain: the Fed tightening monetary policy, inflation, the Russia/Ukrainian war, China's zero covid policy. In our opinion, the fundamentals of the stock market do not support a rapid recovery back to all-time highs. Valuations are close to 10-year historical averages but probably do not have much room for upside given the level of interest rates (Please see our Client Question on **Why Interest Rates Impact Stock Prices**). While earnings estimates are being revised downward for 2023 and may still decline further. Putting it all together, we expect that volatility will continue over the next several months.

In the short-term (months), the most important driver of the economy, interest rates, the bond market, and the stock market will be inflation data and consequently the peak or terminal federal funds rate (the level at which the Fed stops raising rates). The Fed, the economy, most asset classes, and investors would very much appreciate a strong period of disinflation. In this scenario, the Fed can slow down the pace of tightening, interest rates can moderate, and the equity and bond markets can reach a sustainable bottom. If inflation either increases or stays elevated, the Fed will continue to aggressively raise interest rates, likely causing a recession and putting downward pressure on most asset classes.

Over the long-term (years), we continue to suspect this difficult economic environment has created a strong opportunity for investors willing to live with some short-term discomfort. We believe those who were able to either stay invested, rebalance, or add to their existing holdings will 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.

Given the near-term uncertainty and difficult environment, we are relying on our time-tested process. We continue to maintain a disciplined approach while looking 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. On the equity side, we remain tilted toward high quality US stocks. On the fixed income side, we are taking advantage of the highest yields in over a decade while continuing to focus on achieving ballast, stability, and income as well as accounting for short-term cash needs.

The markets have several major events over the next month, including, any update on the Russia/Ukrainian War and China lockdowns, the November Employment Report (12/2), OPEC+ Meeting (12/4), Potential Railroad Union Strike (12/9), CPI Inflation (12/13), FOMC Meeting (12/14), and PCE Inflation (12/23).

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 pursuing your long-term financial goals, especially during times of heightened market volatility. 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. By having two to three years of scheduled cash flows invested in ultra-short fixed income instruments, 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: *No strategy assures success or protects against loss*.

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- Framework for Navigating Current Conditions
- Post Midterm Election Update
- Market Timing Does Not Work
- How often does the stock market decline?

Fixed Income Market

Interest rate volatility has been elevated throughout the year, but yields declined in November as the 10-Year Treasury started at 4.05% before declining to 3.61% at the end of the month. The decrease in interest rates caused the Bloomberg Barclays Aggregate Bond index (Agg) to increase by +3.7% (bond prices move inversely to interest rates and credit spreads). The Agg is still down by -12.6% year-to-date, which is on pace for the worst 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 Treasury yield curve is currently inverted with both the 3-Month (4.32%) and 2-Year (4.31%) higher than the 10-Year (3.61%) yield. In general, the Fed controls shorter term Treasury yields by setting the target federal funds rate while the market controls long term rates as investor demand will vary based on future expectations of inflation and economic growth. An inverted yield curve is a sign of a pessimistic economic outlook and typically signals that investors expect the Fed to cut rates soon. If the Fed does cut rates as investors expect, the 3-Month and 2-Year yields will fall below the 10-Year and the yield curve will be upward sloping again. Please see our 2019 Client Question of the Month where we provide details on a **Yield Curve Inversion**.

Our objective with fixed income is to provide ballast, stability, and income to portfolios. 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. Note that all else equal the investment grade fixed income market needs yields to stabilize rather than decrease from these levels to achieve positive returns going forward. *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 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 4.6% at the end of the month, 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.

Monetary Policy

The Fed had an eventful month with the FOMC meeting on the 2nd, minutes from the meeting released on the 23rd, and Fed Chair Powell's speech at the Brookings Institute on the 30th. Here are four takeaways from the month:

1. The FOMC raised interest rates by 0.75% for the fourth consecutive meeting, bringing the top end of the federal funds rate to 4.00%. Thus far in 2022, the FOMC has raised interest rates by 4.00% total, the largest calendar year increase since 1980.

2. The Fed has signaled that future rate hikes will be less than 0.75%. At the Brookings Institute, Fed Chair Powell stated that, "the time for moderating the pace of rate increases may come as soon as the December meeting." The market expects the FOMC to raise the federal funds rate by 0.50% to 4.50% at the 12/14 meeting.

3. While the peak or terminal federal funds rate remains an open and critical question facing markets, investors received some clarity. Both the FOMC minutes and Fed Chair Powell communicated that the peak federal funds rate will likely be "somewhat higher" than the 4.6% estimate from the September Summary of Economic Projections (SEP). The Fed will provide an updated SEP at the December meeting while the market has priced in a peak rate of about 5%.

4. The FOMC minutes stated that the committee views the probability that the economy will enter a recession sometime in the next twelve months as 50/50.

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, surveys, and breakeven rates while stickier categories including wages, shelter, and food remain elevated.

Inflation readings took a step in the right direction in October, which was a main reason why both the stock and bond markets rallied. Here are several key inflation indicators measured on an annual basis:

- Consumer Price Index (CPI): tracks 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.
  - Latest Reading (October): 7.7%.
  - Prior Reading (September): 8.2%.
  - Peak (June): 9.1%.
  - Source: Bureau of Labor Statistics.

- 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%.
  - Latest Reading (October): 5.0%.
  - Prior Reading (September): 5.2%.
  - Peak (February): 5.3%.
  - Source: Bureau of Economic Analysis.

- 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.
  - Latest Reading (October): 4.7%.
  - Prior Reading (September): 5.0%.
  - Peak (April 2020): 8.0%.
  - Source: Bureau of Labor Statistics.

Economic Data

The economy continues to slow from the post-pandemic boom due to fading stimulus, rising inflation, and Fed tightening. The current period is best characterized by high inflation and a lot of uncertainty caused by how high the Fed will raise interest rates, the Russia/Ukraine War, and China's covid lockdowns.

After increasing by +5.9% in 2021, Real GDP Growth is estimated at +1.8% in 2022 and +0.4% in 2023. Economic growth estimates have been decreasing over the past several weeks as economic indicators, manufacturing, consumer spending, 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 debate on whether the economy has already fallen into a recession will continue for a while longer. The agency charged with maintaining official records of expansions and recessions, the National Bureau of Economic Research (NBER) Business Cycle Dating Committee, has stated the current period does not meet their definition of a recession as a significant decline in economic activity. According to the Federal Reserve, the probability that a recession will start within the next 12-months is about 50/50.

The economy can potentially avoid an official recession if inflation starts to quickly moderate over the next few months. This would take pressure off the Fed from continuing to aggressively tighten monetary policy. In our opinion, a mild recession is likely inevitable, and it does not really matter when the official start date is. Our view is still that the potential recession would be far less severe than previous economic declines like the Global Financial Crisis of 2007 – 2009.

NOVEMBER 2022 MARKET RETURNS

US Equity											
Index	**November**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	5.59%	-13.12%	28.68%	18.39%	31.47%	-4.39%	-9.23%	10.87%	10.95%	13.31%	9.78%
Russell 3000	5.22%	-14.20%	25.64%	20.88%	31.01%	-5.25%	-10.82%	10.25%	10.31%	12.93%	9.88%
Dow Jones Industrial Average	6.04%	-2.89%	20.95%	9.72%	25.34%	-3.48%	2.48%	9.49%	9.70%	12.85%	9.66%
Nasdaq	4.51%	-26.12%	22.21%	45.05%	36.73%	-2.82%	-25.56%	10.71%	11.82%	15.59%	11.97%
S&P 400	6.10%	-8.00%	24.73%	13.65%	26.17%	-11.10%	-3.34%	10.26%	7.95%	11.63%	10.71%
Russell 2000	2.31%	-14.94%	14.78%	19.93%	25.49%	-11.03%	-13.04%	6.40%	5.42%	10.09%	9.39%
Russell 1000 Growth	4.56%	-23.26%	27.59%	38.49%	36.39%	-1.51%	-21.64%	11.77%	12.91%	14.99%	10.80%
Russell 1000 Value	6.25%	-3.68%	25.12%	2.78%	26.52%	-8.28%	2.38%	8.36%	7.83%	10.96%	8.78%

International Equity											
MSCI Index	**November**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	11.26%	-14.52%	11.26%	7.82%	22.01%	-13.79%	-10.14%	1.92%	1.85%	5.00%	6.24%
Europe	12.88%	-17.79%	13.54%	7.89%	23.20%	-16.90%	-12.84%	1.21%	0.58%	4.92%	5.66%
Japan	9.68%	-16.87%	1.71%	14.48%	19.61%	-12.88%	-15.29%	-0.39%	0.31%	6.07%	5.09%
China	29.71%	-25.79%	-21.72%	29.49%	23.46%	-18.88%	-28.13%	-6.59%	-5.14%	2.47%	10.02%
Emerging Markets	14.83%	-18.95%	-2.54%	18.31%	18.42%	-14.57%	-17.43%	0.14%	-0.42%	2.10%	8.60%
ACWI ex US	11.80%	-15.37%	7.82%	10.65%	21.51%	-14.20%	-11.87%	1.75%	1.48%	4.24%	6.59%

US Fixed Income											
Bloomberg Barclays Index	**November**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	3.68%	-12.62%	-1.54%	7.51%	8.72%	0.01%	-12.84%	-2.59%	0.21%	1.09%	3.23%
Treasury Bills	0.31%	1.16%	0.04%	0.54%	2.21%	1.83%	1.17%	0.63%	1.17%	0.69%	1.19%
Corporates	5.18%	-15.39%	-1.04%	9.89%	14.54%	-2.51%	-15.46%	-2.63%	0.72%	2.00%	4.30%
Securitized MBS/ABS/CMBS	3.94%	-11.32%	-1.04%	4.18%	6.44%	0.99%	-11.41%	-2.87%	-0.28%	0.86%	
High Yield	2.17%	-10.63%	5.28%	7.11%	14.32%	-2.08%	-8.96%	0.92%	2.50%	4.27%	7.38%
Munis	4.68%	-8.79%	1.52%	5.21%	7.54%	1.28%	-8.64%	-0.76%	1.40%	1.98%	3.70%

US Equity Sectors											
Index	**November**	**2022**	**2021**	**2020**	**2019**	**2018**	**1-Year**	**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	6.03%	-21.63%	34.52%	43.88%	50.27%	-0.30%	-18.98%	16.58%	17.83%	19.31%	12.98%
Real Estate	6.90%	-22.47%	46.14%	-2.17%	29.00%	-2.23%	-14.53%	3.94%	6.82%	7.40%	
Industrials	7.85%	-2.59%	21.10%	11.05%	29.32%	-13.32%	2.59%	9.38%	8.39%	12.50%	9.79%
Energy	1.26%	70.17%	54.35%	-33.68%	11.81%	-18.10%	75.36%	22.67%	10.84%	6.28%	9.83%
Consumer Discretionary	0.99%	-29.04%	24.43%	33.30%	27.94%	0.82%	-29.22%	6.55%	9.22%	13.13%	10.51%
Communication Services	6.85%	-34.77%	21.57%	23.61%	32.69%	-12.53%	-33.12%	-0.01%	3.77%	5.06%	5.97%
Consumer Staples	6.37%	2.26%	18.63%	10.75%	27.61%	-8.39%	12.79%	11.20%	9.92%	11.13%	9.99%
Utilities	7.02%	2.10%	17.67%	0.52%	26.35%	4.11%	11.94%	7.69%	8.31%	11.25%	11.00%
Materials	11.76%	-7.11%	27.28%	20.73%	24.58%	-14.70%	-0.08%	13.71%	9.10%	10.78%	9.58%
Financials	7.04%	-5.59%	34.87%	-1.76%	32.09%	-13.04%	-2.50%	8.69%	7.92%	13.21%	5.55%
Health Care	4.82%	-0.04%	26.13%	13.45%	20.82%	6.47%	8.93%	13.99%	12.81%	15.25%	10.40%
	Calendar Year Returns						**Annualized Returns**				

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.

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.

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 Russell 3000 Index is a capitalization-weighted stock market index, maintained by FTSE Russell, that seeks to be a benchmark of the entire U.S stock market.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market.

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, whic
h represents approxi¬mately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Index is a stock market index that tracks the highest-ranking 1,000 stocks in the Russell 3000 Index, which represent about 90% of the total market capitalization of that index.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the US and Canada.

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 Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

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