INVESTMENT STRATEGY UPDATE

MARKET REPORT
OCTOBER 2022

ASCENTIAL WEALTH ADVISORS

PERSISTENT INFLATION SQUASHES SUMMER RALLY

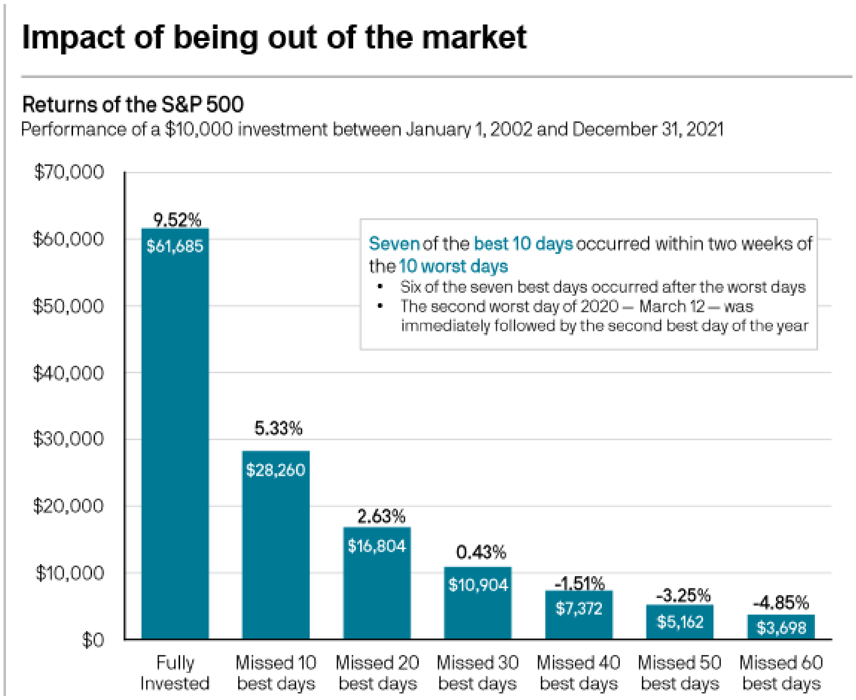
The brief summer rally abruptly ended in August when inflation showed little sign of abating despite falling energy prices. With core inflation accelerating in August, the Federal Reserve abandoned the "soft landing" and committed to bringing inflation down even if it means the economy suffers.

With this shift, markets quickly turned negative, and equity indices fell to new lows while bond yields climbed in anticipation of further rate increases. Equity markets are well into bear market territory with the Nasdaq, the biggest loser, down -32.4% through third quarter. Foreign markets didn't fare much better, with the MSCI Emerging Markets Index and the MSCI EAFE both down approximately -27%. In general, diversification offered less shelter than normal for investors, with stocks and bonds both firmly in the red.

While bonds have generally lost less than stocks, so far 2022 is the worst year ever for bonds. The Fed Funds Rate has risen by about 3.0% so far in 2022 and is expected to end the year around 4.4%.In addition to rate increases, the Federal Reserve has also been reversing its quantitative easing program that has been in place since 2008, putting further pressure on bonds. The silver lining may be that for the first time in a decade, fixed income is beginning to offer some decent yields and returns for investors. The yield on the 10-year Treasury has risen from 1.5% at the beginning of the year, to 3.8% at the close of the third quarter. The yield on the 2-year Treasury climbed to 4.2% as of the end of the quarter, rising above the 10-year which can also be a recessionary warning sign.

Index	*2022 (through 9/30)*
S&P 500	**-23.9**
DJIA	**-19.7**
MSCI EAFE	**-27.1**
BC US Aggr. Bond	**-14.6**

Dow Jones Relative Risk Benchmarks	
Conservative	**-16.3**
Moderate	**-20.4**
Aggressive	**-24.4**



Source: J.P. Morgan, Guide to Retirement, 2022

The actions of the Fed and other central banks seem to be slowing economic activity. The mixed signals we have been watching throughout the year are trending more negative, but it is impossible to know how much of the slowdown has been priced into markets already or how much downside remains. We expect volatility to be elevated for the near term as markets sort out the data, and as long-term investors we don't attempt to time the market, but we are continuing to monitor for risks and opportunities. Markets are forward looking and tend to recover before the economic data signals a recovery so it is crucial to stay invested as uncomfortable as that can feel at times.

> *"The investor's chief problem - and even his worst enemy - is likely to be himself."*
> *-Benjamin Graham*

OUR VIEW

FIXED INCOME:

Historically bonds have not been as correlated to stocks as they have been in 2022, and as a result diversified portfolios have experienced more downside than we would normally expect. As disappointing as bond performance has been, yields are more attractive now than they have been for a decade, and fixed income looks poised to offer better returns going forward, particularly if the interest rate environment stabilizes. At this juncture, we are in favor of higher credit quality bonds given improved yield and the prospects of a slowing economy. Overall fixed income alternatives have been less negatively impacted by rising interest rates and offered better downside protection than most fixed income year-to-date. We continue to recommend fixed income alternatives as a complement to bonds to help mitigate further interest rate risk.

US EQUITY:

US stocks appear relatively cheap on a price-to-earnings basis. There have not been major negative revisions to earnings yet, but with the economy slowing it is likely we will see some downward pressure. How much earnings will decline, and how much of a that has already been priced in is unknown. We are optimistic about the long-term opportunities in US equities and feel overall the US is positioned to weather a downturn better than most of the world. Companies are generally healthy, and consumers are in a good place with a tight labor market and rising wages, which should support a milder economic contraction providing the Fed is able to contain inflation. We are biased to large, quality US companies and in favor of a balance in growth and value. While there may be more downside before the market turns around, taking a long-term view, there are a lot of quality US stocks that seem oversold.

INTERNATIONAL EQUITY:

The global economy is slowing in the wake of broad scale inflationary pressures and central bank interest rate hikes. In addition to inflation, Europe is facing an energy crisis as it tries to find sources other than Russia for energy, and a recession seems likely. China is still suffering from a self-imposed economic slowdown, and the rest of the world is feeling the effects via supply chains. While foreign equities remain at significantly discounted valuations relative to US equities, the near-term risks feel greater, and we feel less optimistic about their prospects for now. As a result, we are continuing to recommend a reduced allocation to foreign stocks, along with a focus on quality and active management for the remaining exposure.

"Be fearful when others are greedy. Be greedy when others are fearful."
-Warren Buffett

"The four most dangerous words in investing are: 'this time it's different.'"
-Sir John Templeton

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