



# PENSION & WEALTH MANAGEMENT ADVISORS

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## Q3 2022 - Market Commentary<sup>1</sup>

- The U.S. economy had negative real GDP growth during the first half of 2022 while inflation levels remained elevated.
- Despite increasing evidence that the U.S. economy is decelerating at a rapid pace, the U.S. Federal Reserve raised interest rates another 1.5% during the third quarter and remains committed to more increases through year-end in order to break inflation.
- After a sizable 13% rally through mid-August, U.S. stocks fell apart and declined nearly 5% during the third quarter.
- It has been 80 years since stocks rose doubledigits and ended with a negative return during a quarter. Rising bond yields, persistent inflation, negative corporate earnings, and a slowing economy were all contributing factors.
- U.S. stocks have declined nearly 25% year-to-date, the worst performance since 2008. Non-U.S. stocks underperformed U.S. stocks by 5% during the third quarter as the majority of foreign central banks aggressively hiked interest rates.
- Foreign currency declines against the U.S. dollar added to negative returns.
- The U.K. experienced a currency and bond market meltdown that forced its central bank to intervene, and Europe continued to deal with the negative economic and social impacts of the Russia/Ukraine conflict and the ensuing energy crisis.
- Emerging markets stocks had the worst performance during the third quarter, led by China, which declined 22%.
- China's economic outlook deteriorated further as it maintained a draconian Covid-19 lockdown policy. Its real estate market experienced large defaults and exports are falling due to the global recession. China's economic slowdown is negatively impacting the broader Asian region.
- Bonds are experiencing the worst returns in nearly 50 years and declines in global bonds have erased a decade of bond returns.
- The broad fixed income market as measured by the Bloomberg Aggregate Bond Index is having its worse year since 1976 and is down nearly 15% year-to-date. The 10-year U.S. Treasury yield ended the quarter at 3.83%, up significantly from 1.51% at the start of 2022.
- As the U.S. Federal Reserve aggressively raises interest rates, money market yields have risen steadily and now offer investors an attractive yield alternative to both stocks and bonds.
- Oil prices finally succumbed to global recession risks during the third quarter as the benchmark WTI Index fell nearly 25%. However, energy stocks remain the biggest outperformers by a wide margin.
- Bitcoin continued to experience wide swings in value but managed to stay positive during the third quarter despite continued declines across other risk assets. Balanced portfolios suffered their third consecutive quarter of negative returns.
- A 60/40 balanced portfolio is having its worst return year since 1931 and is down nearly 21% year-to-date.

## Performance Table<sup>1</sup>

	3Q22		2022YTD		2021		2020		2019	
S&P 500 Index (U.S. large/mega cap stocks)	-4.9%	↓	-23.9%	↓↓↓	28.7%	↑↑↑↑	18.4%	↑↑↑	31.5%	↑↑↑↑
Russell 2000 Index (U.S. small cap stocks)	-2.2%	↓	-25.1%	↓↓↓	14.8%	↑↑↑	20.0%	↑↑↑	25.5%	↑↑↑↑
Russell 3000 Index (all U.S. stocks)	-4.5%	↓	-24.6%	↓↓↓	25.7%	↑↑↑	20.9%	↑↑↑	31.0%	↑↑↑↑
MSCI EAFE Index (large cap developed markets int'l stocks)	-9.4%	↓↓	-27.1%	↓↓↓	11.3%	↑↑↑	7.8%	↑↑	22.0%	↑↑↑
MSCI EM Index (emerging markets stocks)	-11.6%	↓↓↓	-27.2%	↓↓↓	-2.5%	↓	18.3%	↑↑↑	18.4%	↑↑↑
MSCI All Countries Ex U.S. Index (all non-U.S. stocks)	-9.9%	↓↓	-26.5%	↓↓↓	7.8%	↑↑	10.7%	↑↑↑	21.5%	↑↑↑
MSCI All Countries World Index (global stocks)	-6.8%	↓	-25.6%	↓↓↓	18.5%	↑↑↑	16.3%	↑↑↑	26.6%	↑↑↑
Bloomberg Aggregate Bond Index (inv. grade bonds)	-4.8%	↓	-14.6%	↓↓↓	-1.5%	↓	7.5%	↑↑	8.7%	↑↑
Bloomberg High Yield Index (below inv. grade corp. bonds)	-1.7%	↓	-16.2%	↓↓↓	4.0%	↑	5.0%	↑	14.9%	↑↑↑
Bloomberg Short-Term Treasury Index (cash)	0.3%	↑	0.1%	↔	0.0%	↔	1.0%	↑	2.5%	↑
Bloomberg Municipal Bond Index	-3.4%	↓	-12.1%	↓↓↓	1.6%	↑	5.0%	↑	7.5%	↑↑
Gold	-7.6%	↓↓	-8.8%	↓	-3.7%	↓	25.1%	↑↑↑↑	18.4%	↑↑↑
Oil (West Texas Intermediate Crude)	-24.8%	↓↓↓	5.7%	↑↑↑	55.8%	↑↑↑↑↑	-20.9%	↓↓↓	31.5%	↑↑↑↑
Bitcoin	2.0%	↑	-57.9%	↓↓↓	59.0%	↑↑↑↑↑	303.7%	↑↑↑↑↑	90.3%	↑↑↑↑↑
Ishares Core Growth Allocation ETF (60% stocks / 40% stocks)	-6.0%	↓	-20.8%	↓↓↓	11.2%	↑↑↑	11.4%	↑↑↑	18.9%	↑↑↑

<sup>1</sup> Data sourced from Barclays, Market Watch, MSCI, Russell, Standard & Poors, Wall Street Journal and Barrons.