MoneyMatters
MARKET UPDATE

Q4
2022

Headwind Interests

ROEHL & YI
INVESTMENT ADVISORS, LLC

Headwind Interests

The third quarter of 2022 was certainly painful for investors to witness, as stubbornly high inflation and aggressive interest rate hikes sparked a massive September selloff. Whether it was the safest US Treasuries or the riskiest emerging market equities, global stocks and bonds lost a record $36 trillion in value over the past nine months. (Source: *Bloomberg*) Looking ahead, the market is facing additional headwinds as economic indicators show signs that the chances of a global recession seem increasingly probable, though its magnitude is unclear.

We've seen a third quarter in a row in which both US stocks and bonds had negative returns. This has never before occurred, with the exception of 1931. (Source: *BlackRock*) Federal Reserve Chairman Jerome Powell is committed to raising interest rates to fight inflation even at the cost of weakening the economy and placing further financial strain on consumers. Top analysts could not have predicted the stickiness of inflation, even with swelling interest rates; nonetheless, it has remained high at an annual rate of 8.2%. (Source: *Consumer Price Index, Sept. 2022*)

Labor data is weakening, albeit slightly, and corporate earnings may begin to level off. We expect volatility to remain elevated, and though counterintuitive, a strong US dollar is contributing to the instability. The dollar increased to a two-decade high (rising 22%) between September 2021 through mid-September 2022 (Source: *Morningstar*) – slowing exports, and increases to our imports, are swelling our nation's trade deficit. In addition, volatility was seen in foreign markets as investors sought refuge in the US dollar, and corporations that invest internationally also saw increased risk exposure and reduced profits.

A sentiment is taking shape that bad news may be good news, in that if corporate profits begin to dip and layoffs ensue, the Federal Reserve might temper its rate increases currently expected by the market. Not an ideal scenario to say the least.

As the market digests these realities, there are encouraging elements. The US is experiencing fewer supply-chain issues, household and corporate balance sheets are strong, corporations still have comfortable access to capital, and banks are not showing signs of distress. One critical indicator of economic health, unemployment, has held steady at 3.5% as of September 30. (Source: *Bureau of Labor Statistics*) Though you can expect to see more unpleasant headlines in the news, we believe a market turnaround is possible over the next 12 months.

Market Recap
Stock Market

Over the third quarter of 2022, the S&P 500 was down 4.88%, the Russell 2000 Small-Cap Value Index was down 2.19%, US bonds were down 4.75%, and international stocks were down 9.36%.* (Source: *Morningstar*) Despite these outcomes, stock market valuations look more compelling. For example, the S&P 500 forward price/earnings ratio started 2021 at 21.2 and ended the third quarter at 15.2. (Source: *JPMorgan Guide to the Markets*) Falling securities prices of 20% or more from recent highs, indicate a bear market. We discuss different types of bear markets on page 7.

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

2022 Market Returns

2022 Market Returns, 9 Months Ended September 30th

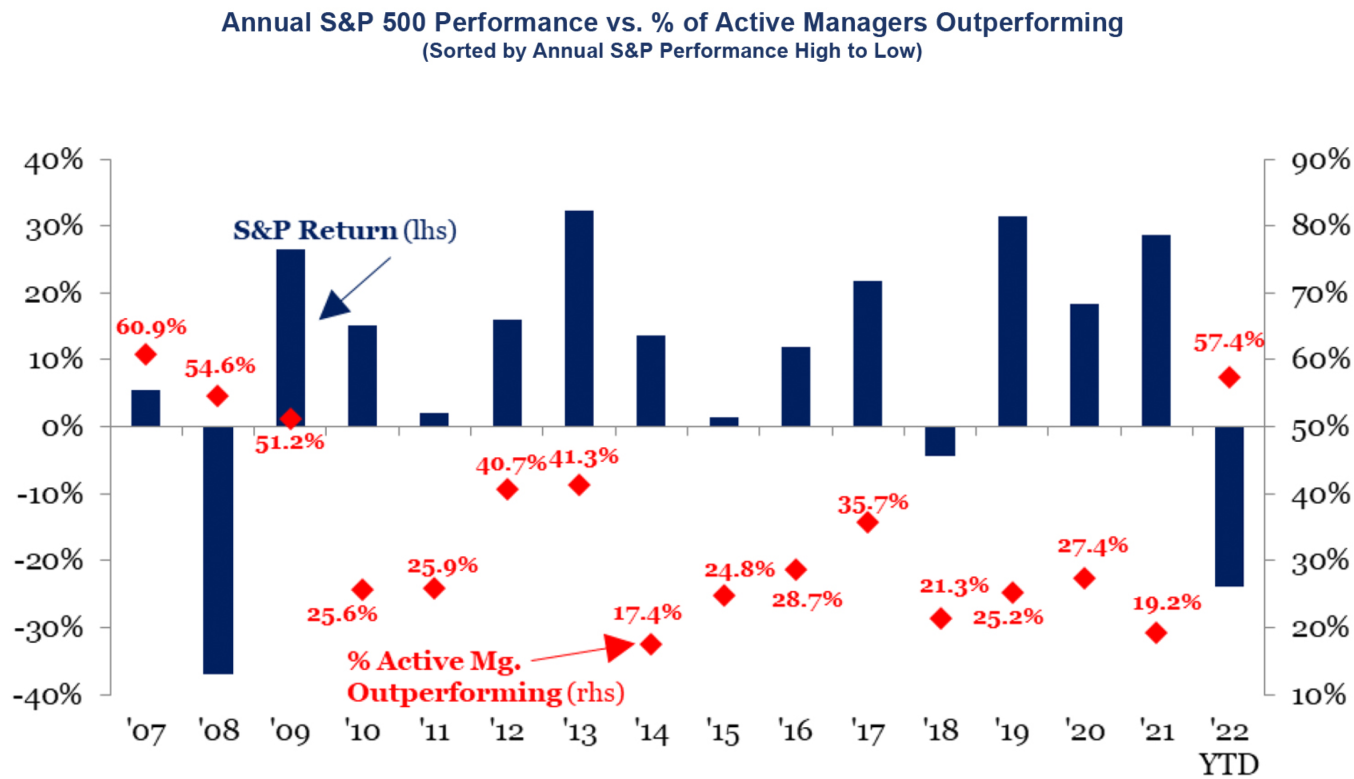
	2022 YTD	2021 FULL YEAR	CURRENT YIELD	COMMENTS
EQUITIES				
S&P 500 US Large Stocks	-23.9%	28.7%	1.9%	Essentially giving back 2021's strong gain.
Russell 1000 Value US Large Value	-17.8%	25.2%	2.5%	Value is holding up better than growth but still down significantly YTD.
Russell 2000 US Small Stocks	-25.1%	14.8%	1.5%	Returns have now been essentially flat since the end of 2019.
MSCI EAFE Non-US Large Stocks	-27.1%	11.3%	3.6%	5-year trailing returns are now slightly negative.
MSCI Emerging Markets	-27.2%	-2.5%	3.6%	Only a slight positive return of 1.05% annualized for the past 10 years.
MSCI All Country World	-25.6%	18.4%	2.5%	The world stock index, including the US.
MSCI All Country World Ex-US	-26.5%	7.5%	3.6%	The world stock index, excluding the US.
BONDS				
Bloomberg US Aggregate Bonds	-14.6%	-1.5%	3.9%	Bonds down for third straight quarter as interest rates continue to rise.
US 20+ Year Treasuries	-29.9%	-4.7%	3.8%	Longest maturity US government bonds are most sensitive to rate moves.
Bloomberg US TIPS Index	-13.6%	6.0%	7.6%	Even inflation-linked bonds suffered loss due to the rise in rates.
Bloomberg US High Yield Index	-14.7%	5.3%	8.1%	Increasing default risk also affecting the weaker credits.
FTSE WGBI Non-US Gov. Bonds	-21.3%	-7.0%	3.2%	In US dollar terms foreign bonds have suffered most.
MISC.				
Dow Jones US Select REIT Index	-29.3%	45.9%	4.1%	One of the top performers in 2021 selling off significantly YTD.
Bloomberg Commodity Index	13.6%	27.1%		One of the few bright spots YTD, though down for the 3rd quarter.
Gold	-7.4%	-4.1%		Held its value relative to other major asset classes.
Oil	6.1%	57.0%		Gas prices have eased to ~$4.00 after peaking at over $5.00 in June.
Bitcoin	-57.5%	57.2%		Been exposed as tide goes out, strong 2021 returns have been erased
US Dollar, Change	10.7%	3.5%		Strong US dollar so far this year in "flight to safety".
Consumer Price Index, 12 Mo Change	8.3%			CPI remains at or near its highest levels in ~40 years.
US 10 Year Treasury Bond Yield	3.8%			More than doubling from 1.5% to start the year.

Sources: Morningstar, S&P Global, FTSE Russell, MSCI, Bloomberg, Blue River, LLC
Data as of 9/30/2022.

Actively Managed Portfolios

On the upside, data shows that actively managed portfolios bear fruit in some circumstances. In the chart below, the blue bars represent annual S&P 500 returns, and the red triangles represent the percentage of actively managed portfolios that outperformed the S&P 500 by year. As of September 2022, 57.4% of actively managed accounts have outpaced the S&P 500 thus far. Active managers, as a group, often do well during bear-market periods. Of course, that means that 42.6% of actively managed accounts have underperformed or have been even with the S&P 500.

Active Managers Having Best Year Since 2007

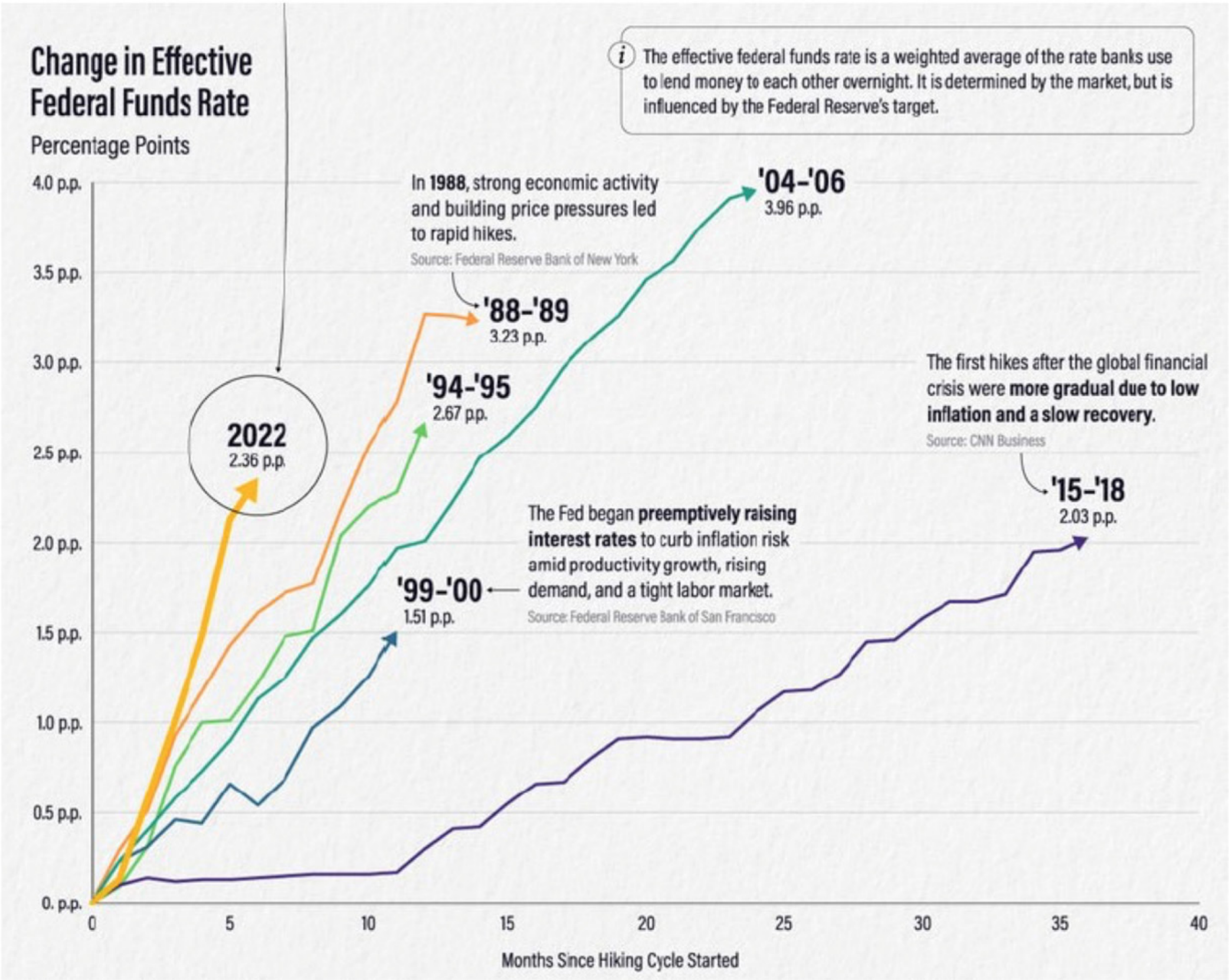


Source: Strategas
Data as of September 30, 2022

Federal Funds Rates

In just seven months, beginning March 2022, the Federal Reserve hiked interest rates by 300 basis points in one of the fastest rate increases in history. By the end of 2023, rates could rise to 4.50%-4.75%. Yet despite these increases, rates are still below historical averages, though investors remain apprehensive about the Federal Reserve's claim of a planned "soft landing" of the economy.

Change in Effective Federal Funds Rate



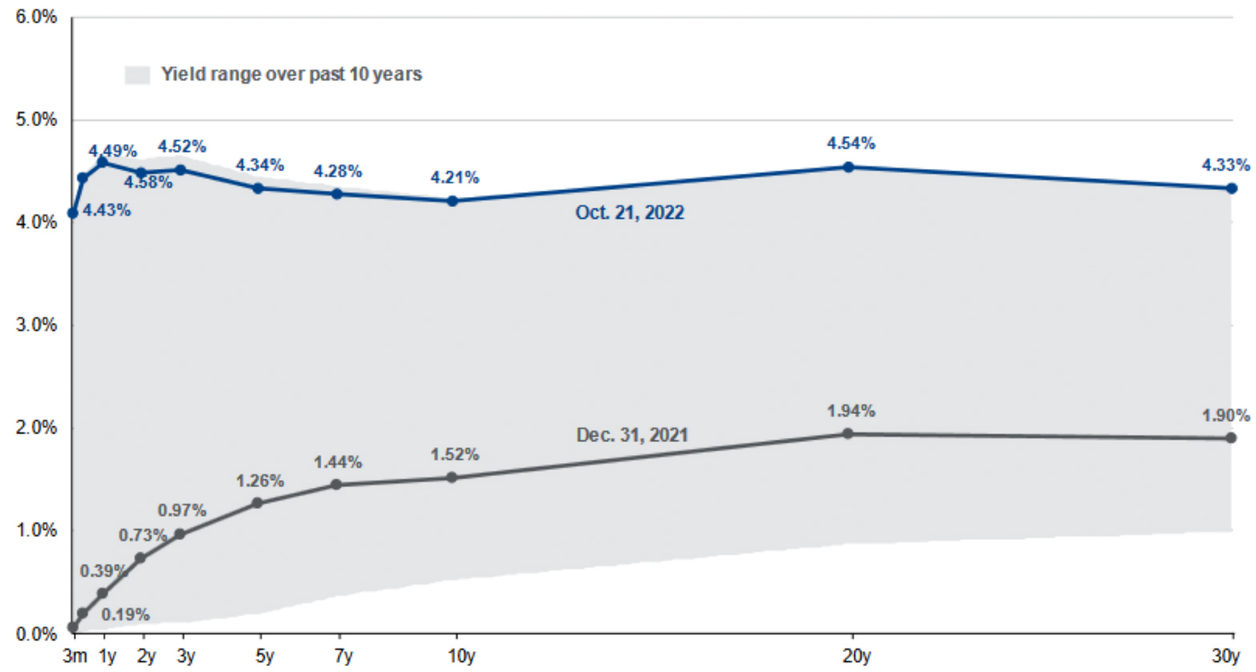
Month 0 is the month when the first interest rate hike in the cycle occurred. The 2022 cycle reflects the change in the effective federal funds rate up to September 2022.
Source: Federal Reserve • Data as of September 2022.

Yield Curves

Even as Treasury yields experienced a striking fissure between Dec 31, 2022, and October 21, 2022 (Source: *JP Morgan*), interest rates are not necessarily the full story. Investors are starting to assume that rate increases translate into stock market selling pressure. Many things influence business activity—consumer spending, corporate profitability, and the direction of the stock market are all key factors.

Yield Curve

US Treasury Yield Curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of October 21, 2022.

Understanding Bear Markets

History tells us that after every bear market, a bull returns. From 1929 to 2021, there were 26 bear markets, while there have been 27 bull markets over the same time period, and all were larger than the preceding bear. (Source: *Zacks Investment Management*) Also during this same period, the average bear market resulted in a 36% decline for stocks while the average bull market resulted in a 114% gain. (Source: *Hartford Funds*)

S&P 500 Returns Following Drawdowns

S&P 500 Total Returns Following 25% Drawdown (%) — Positive / Negative

25% Drawdown Period	Peak-to-Trough Drawdown	1-Year	3-Year	5-Year	10-Year
Dec 1961–Jun 1962	-28	34	70	100	178
Nov 1968–Apr 1970	-36	35	47	28	100
Jan 1973–Apr 1974	-48	1	23	44	189
Nov 1980–Aug 1982	-27	61	108	272	485
Aug 1987–Oct 1987	-34	28	55	119	471
Mar 2000–Mar 2001	-49	2	1	24	37
Oct 2007–Sep 2008	-57	-5	11	65	209
Feb 2020–Mar 2020	-34	62	–	–	–
Jan 2022–Sep 2022	-25	–	–	–	–
Average	**-38**	**27**	**45**	**93**	**238**

Source: Bloomberg, Goldman Sachs Asset Management.
Data as of 10/6/2022.

There are three types of bear markets, and we believe we are currently in a cyclical bear market, sparked by the pandemic.

STRUCTURAL BEAR MARKETS

Structural bear markets are caused by severe price dislocations, typically in financial markets, and are often associated with 'bubbles.' They tend to be the most painful, averaging a 50% decline post-World War II over approximately two years, similar to the 2008 global financial crisis.

CYCLICAL BEAR MARKETS

Cyclical bear markets are more closely tied to the business cycle, and often coincide with a peak in profit margins, rising interest rates, elevated inflation, and/or a deceleration in economic growth.

EVENT-DRIVEN BEAR MARKETS

Event-driven bear markets are triggered by an unexpected shock. The COVID-19 pandemic is an example of this as investors quickly anticipate immediate and elevated risks to earnings and growth.

Cyclical and event-driven bear markets average 30% declines over generally shorter periods, of between six months and one year. (Source: *Zacks Investment Management*)

The Economy

Inflation

A confluence of massive fiscal policy stimulus via the $1.9 trillion American Rescue Plan, tight labor markets, and rising energy costs is causing inflationary forces to broaden and become more entrenched than previously expected.

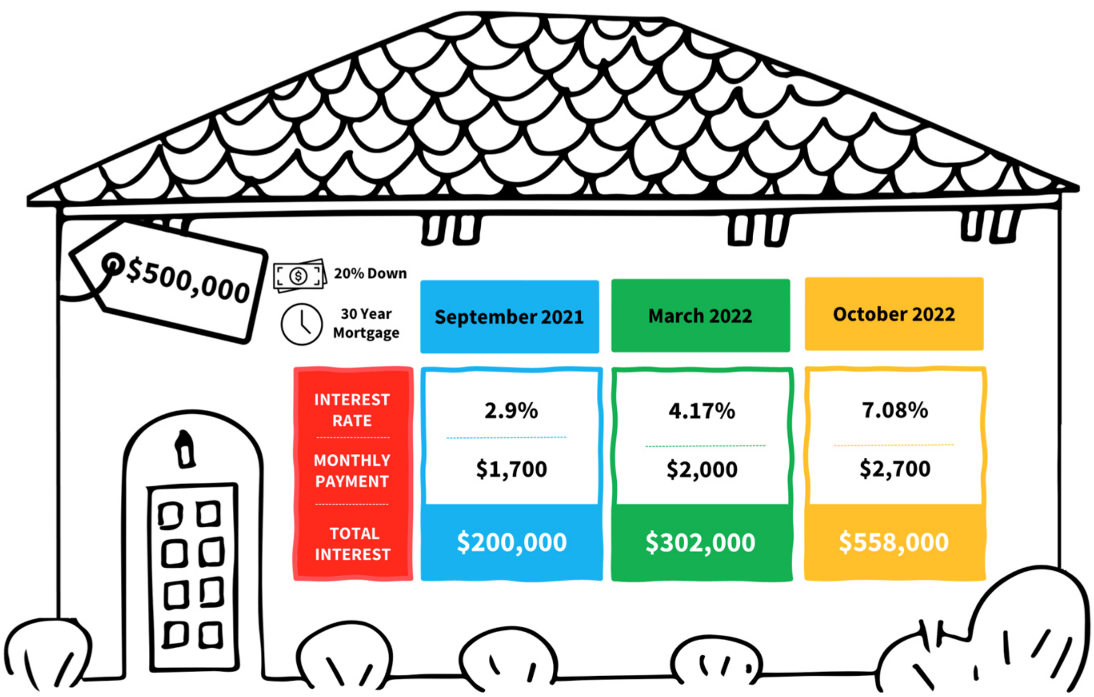
The CPI for food increased 11.2%, energy rose 19.8%, transportation was up 14.6% and new vehicles were up 9.4% for the 12 months ending September. (Source: *US Bureau of Labor Statistics)*

The Housing Market

As mortgage rates have risen sharply, US housing starts declined once again in September (the eighth straight month), reflecting the cooling housing market and affordability issues plaguing the single-family sector. (Source: *Mortgage Professional America*) The August decline in home sales saw prices down 6% from their peak in June, the biggest two-month drop in prices in nearly a decade. (Source: *Federal Reserve Economic Data, National Association of Realtors*)

Most buyers have not experienced such rapid rate increases and are opting to stay put with their current 3% or 4% interest rate mortgages rather than trade significantly higher borrowing costs for a larger or relocated home. As an example, moving from a 3.5% interest rate to a 7.0% interest rate can increase mortgage costs by thousands of dollars per month, depending on the cost of the home. See chart below.

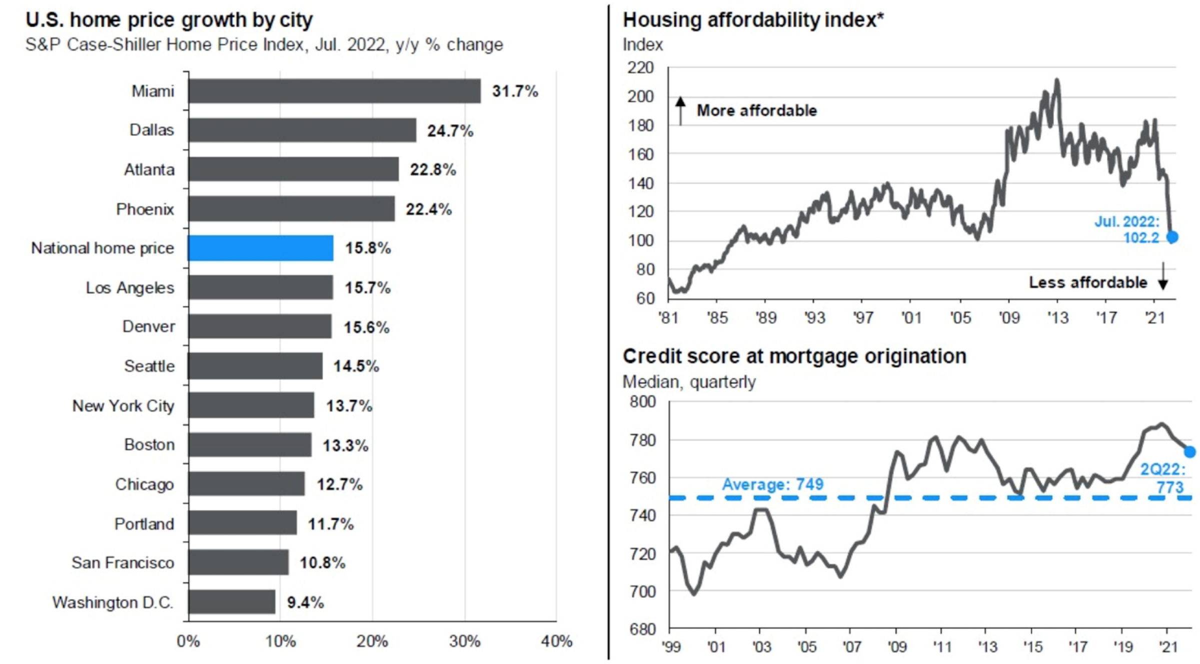
Mortgage Rates



Numbers are rounded to the nearest hundred for the monthly payments ands rounded to the nearest thousand for total interest.
Source: Freddie Mac
Data as of September 30, 2021, March 30, 2022, and October 27, 2022.

Even with decreasing demand for homes, prices across the top 13 markets have increased by double digits in all but one, Washington D.C. This directly impacts housing affordability while higher required credit scores squeeze out many buyers.

Home Prices and Affordability



Source: J.P. Morgan Asset Management. (Left) Factset, Robert Schuller, Standard & Poor's; (Top right) U.S National Association of Realtors; (Bottom right) New York Fed Consumer Credit Panel/Equifax.
*Based on the National Association of Realtors methodology, an index value above 100 signifies that a family earning the median income has more than enough income to qualify for a mortgage loan on a median-priced home. The calculation assumes a down payment of 20% of the home price and it assumes a qualifying ratio of 25%.
Data as of September 30,2022.

The Federal Reserve's aggressive monetary policy tightening is significantly weakening the housing market, with most indicators falling to levels last seen during the first wave of the COVID-19 pandemic in the spring of 2020.

And an even larger storm may be brewing. Over the past decade owning a house has meant easy money. Prices rose reliably for years, but whipsawed during the pandemic. Home prices are now falling in nine of the richest economies. The drops in America have been small thus far compared to Canada, which lost 9% in home values since February. (Source: *The Economist*) As inflation and recession stalk the world, a deepening correction may be on the horizon, though nothing mirroring 2008 is likely.

The Job Market

Companies generally do not lay off workers unless it is absolutely necessary, and we have not yet seen this occur.

Total non-farm payroll employment increased by 263,000 and the unemployment rate edged down to 3.5% in September. Notable job gains occurred in leisure, hospitality, and health care. (Source: *US Bureau of Labor Statistics*)

However, initial jobless claims came in at 219,000 (ending September 2022), 15,000 more than anticipated and 29,000 more from the previous week's downwardly revised 190,000 – though still at a low point historically.
(Source: *Zacks Investment Management*)

Roehl & Yi's Final Thoughts

Over the past 80 years, the S&P 500 has generated approximately 11% in annualized returns, factoring in bear markets. (Source: *Zacks Investment Management*) It is understandable that keeping anxiety at bay is challenging, but we believe that patience is often rewarded.

Consider these suggestions:

- Refrain from making emotional decisions.
- As volatility will likely continue into 2023, ensure you have sufficient cash and take advantage of low-risk cash alternatives that are now yielding 4% to 5% returns.
- Discuss tax-loss strategies with your financial advisor.
- Lower valuations lead to higher future returns. Selectively find opportunities to invest in the market.

We'd like to leave you with a quote:

"There is always a disposition in people's minds to think the existing conditions will be permanent. When the market is down and dull, it is hard to make people believe that this is the prelude to a period of activity and advance. When the prices are up and the country is prosperous, it is always said that while preceding booms have not lasted, there are circumstances connected with this one, which make it unlike its predecessors and give assurance of permanency. The fact pertaining to all conditions is that they will change."

– Charles Henry Dow, 1900

Dow was an American journalist who co-founded Dow Jones & Company with Edward Jones and Charles Bergstresser. Dow also co-founded The Wall Street Journal, which has become one of the most respected financial publications in the world.

The R&Y Promise

Roehl & Yi has made a commitment to delivering more value through enhanced client engagement, new educational videos, resource-filled emails, and more.

As always, we are grateful for your continued trust in Roehl & Yi, and we ask that your first phone call be to us if you have any questions or concerns about your investments. May you and your family experience happiness and good health.

For A Personal Wealth of Reasons

450 Country Club Rd., Suite 200, Eugene, OR 97401
Tel: 541.683.2085 • Toll Free: 888.683.4343
www.Roehl-Yi.com