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Markets Update

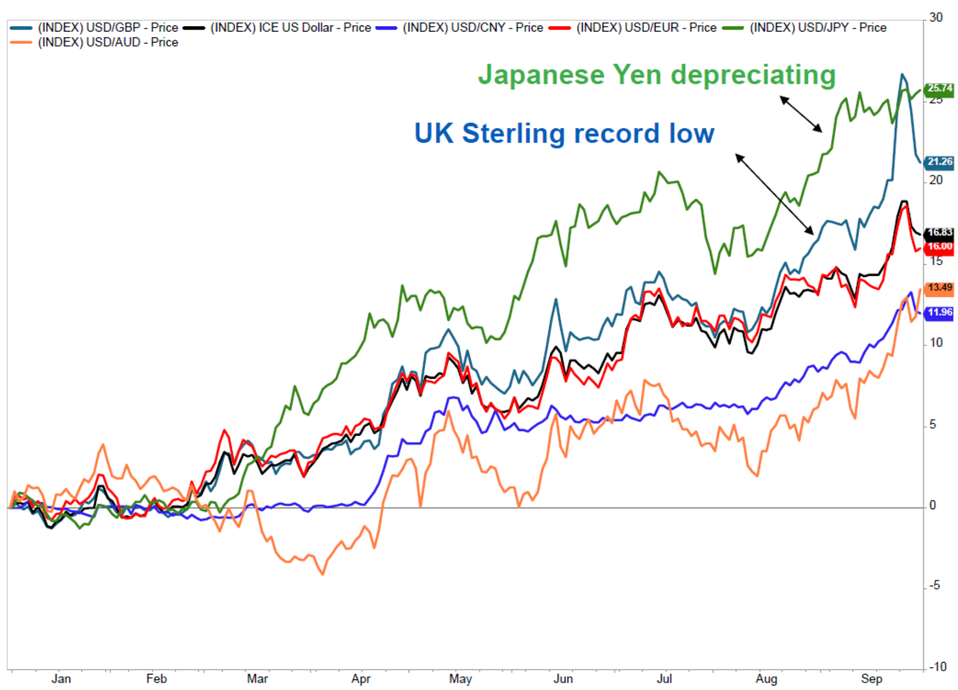
September 2022

Et Tu, Brute?

The third quarter brought no relief from the year-to-date declines in financial markets around the globe. The month of September was particularly difficult, led by the U.S. CPI print and then our friends in the United Kingdom. The new Prime Minister and new Chancellor surprisingly announced a large package of tax cuts and fiscal spending. This news drove sterling to an historic low against the dollar and led to a rise in interest rates that was unprecedented in swiftness and steepness. In turn, the UK bond market went into free fall, in part due to UK pensions' liability driven strategies, which utilize derivatives in their hedging strategies. As rates rose, the hedges required margin calls and forced selling to raise cash caused a downward spiral. The Bank of England stepped in to support the bond market and the situation calmed, but not before Sterling reached all-time lows against the dollar

As outlined in the chart below, it is not just the recent United Kingdom sterling depreciation, the yen has been hit as well as other currencies as the dollar continues to be the safe haven currency amidst the global macro turmoil. The ripple effects of this dollar strength are many as outlined in our recent blog. (See our recent blog for additional information on the dollar's ascent: https://www.segalmarco.com/investment-insights/us-dollar-strength?utm_source=article&utm_medium=email&utm_campaign=Article-by-Sean-Hunt-&-Jeff-Kuhl-on-U.S.-Dollar-Strength).

US Dollar Dominance



Source: FactSet

All asset classes were negative in the month and quarter ended September. Even real estate and private equity funds are starting to reflect markdowns in valuation (albeit small compared to the public markets).

September 2022

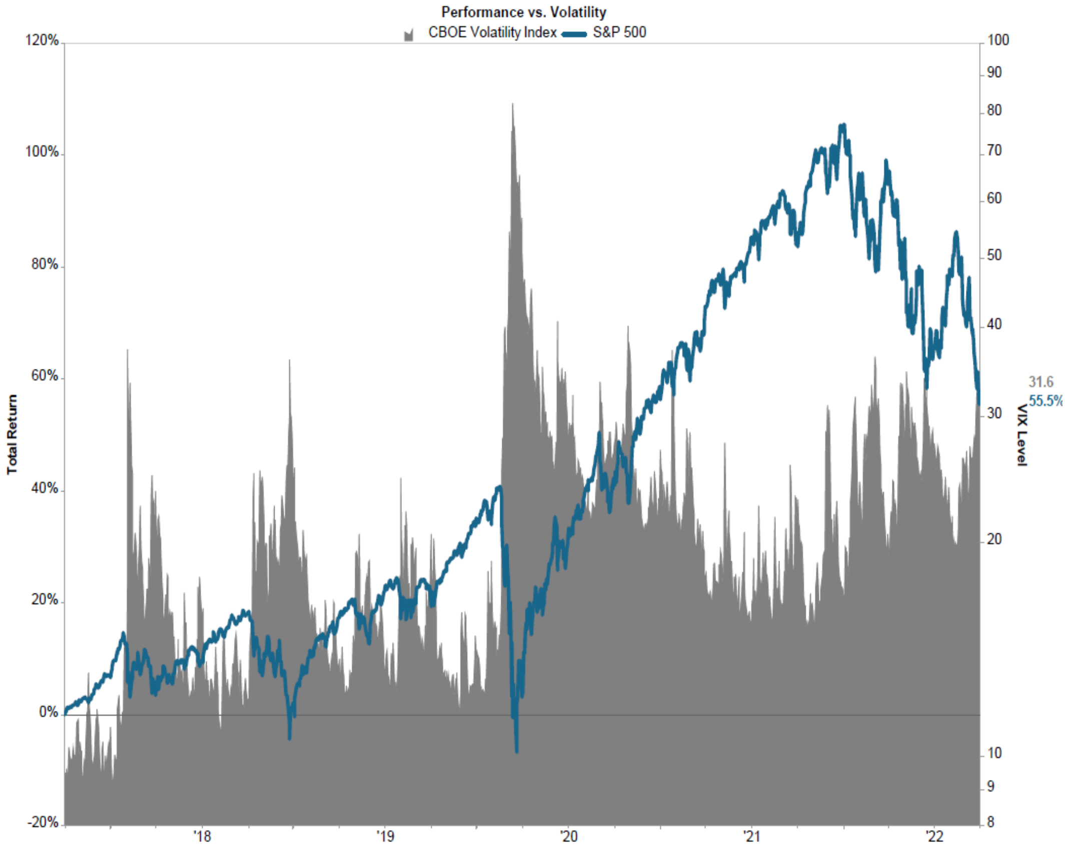
Equity	YTD (%)	Fixed Income	YTD (%)
All Cap U.S. Stocks		***Bloomberg***	
Russell 3000	-24.6	U.S. Aggregate	-14.6
Growth	-30.6	U.S. Treasury: 1-3 Year	-4.5
Value	-18.0	U.S. Treasury	-13.1
Large Cap U.S. Stocks		U.S. Treasury Long	-28.8
S&P 500	-23.9	U.S. TIPS	-13.6
Russell 1000	-24.6	U.S. Credit: 1-3 Year	-4.6
Growth	-30.7	U.S. Intermediate Credit	-11.3
Value	-17.8	U.S. Credit	-18.1
Mid Cap U.S. Stocks		U.S. Intermediate G/C	-9.6
S&P 400	-21.5	U.S. Govt/Credit	-15.1
Russell Midcap	-24.3	U.S. Govt/Credit Long	-28.9
Growth	-31.5	U.S. MBS	-13.7
Value	-20.4	U.S. Corp High Yield	-14.7
Small Cap U.S. Stocks		Global Aggregate (USD)	-19.9
S&P 600	-23.2	Emerging Markets (USD)	-20.5
Russell 2000	-25.1		
Growth	-29.3	***S&P/LSTA***	
Value	-21.1	Leveraged Loan	-3.3
International			
MSCI EAFE NR (USD)	-27.1		
MSCI EAFE NR (LOC)	-14.5	**Alternative**	
MSCI EM NR (USD)	-27.2	Bloomberg Commodity	13.6
MSCI EM NR (LOC)	-20.8	S&P GSCI	21.8

Equity	MTD (%)	Fixed Income	MTD (%)
All Cap U.S. Stocks		***Bloomberg***	
Russell 3000	-9.3	U.S. Aggregate	-4.3
Growth	-9.7	U.S. Treasury: 1-3 Year	-1.2
Value	-8.9	U.S. Treasury	-3.5
Large Cap U.S. Stocks		U.S. Treasury Long	-7.9
S&P 500	-9.2	U.S. TIPS	-6.6
Russell 1000	-9.3	U.S. Credit: 1-3 Year	-1.3
Growth	-9.7	U.S. Intermediate Credit	-3.2
Value	-8.8	U.S. Credit	-5.1
Mid Cap U.S. Stocks		U.S. Intermediate G/C	-2.7
S&P 400	-9.2	U.S. Govt/Credit	-4.1
Russell Midcap	-9.3	U.S. Govt/Credit Long	-8.3
Growth	-8.5	U.S. MBS	-5.1
Value	-9.7	U.S. Corp High Yield	-4.0
Small Cap U.S. Stocks		Global Aggregate (USD)	-5.1
S&P 600	-9.9	Emerging Markets (USD)	-5.5
Russell 2000	-9.6		
Growth	-9.0	***S&P/LSTA***	
Value	-10.2	Leveraged Loan	-2.3
International			
MSCI EAFE NR (USD)	-9.4		
MSCI EAFE NR (LOC)	-6.2	**Alternative**	
MSCI EM NR (USD)	-11.7	Bloomberg Commodity	-8.1
MSCI EM NR (LOC)	-9.4	S&P GSCI	-7.8

Stock and Bond Markets

Despite the brief summer rally, stock market declines in the month of September (-9.2% for S&P 500) contributed to the quarter being down about 5% for both the large capitalization S&P 500 and the small capitalization S&P 600 Index. Non-US markets fared worse, led by dollar strength and on-going geo-political and financial difficulties abroad.

Despite an extremely volatile bond environment globally, declines in stocks have not been accompanied by increased volatility. As shown below the VIX volatility index, also known as the fear gauge, remains at about 30.



Source: FactSet

In the bond markets, the month of September saw declines (Bloomberg Aggregate -4.3%) and provided the bulk of the quarter's losses of -4.8% for the Aggregate Index. The rising rate environment continued to punish longer duration assets with the Long Treasury index down -9.6% in the quarter. In this 'no place to hide' environment, credit, Mortgage-backed securities, non-US assets and even short duration bonds were all negative in the month and quarter.

After these difficult three quarters, what should we be thinking about for the fourth quarter? Last quarter we suggested that we needed to see evidence of a) slowing of interest rate increases, particularly that the market was done front running expectations of where the Fed would or would not pause, b) indications that the pricing of risk assets reflect enough negative outlook on earnings that bargain hunters and institutional investors would begin buying, or c) a consistent deceleration in inflation readings. While inflation last month surprised to the upside, we did see year over year declines in many categories in July and August, and on many measures, it is expected to continue to decline from the highs we experienced earlier in the year. Only time will tell if inflation is beat, and the Federal Reserve will be able to pause its interest rate hikes. In the meantime, full employment and positive wage increases continue providing support for consumer spending and the economy.

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