CLIENT BRIEFING

# QUARTERLY ECONOMIC COMMENTARY | Q3 | 2022

Stocks sustained deep losses during the first nine months of the year as central banks increasingly made clear that interest rate increases and monetary tightening will continue. Still, some financial analysts see more upside for stocks going into the final stretch of the year. They point to several factors, such as positive corporate earnings, lower commodity prices that may lead to more favorable inflation data and a strong jobs outlook. Further, stocks have a long tradition of rallying after midterm elections.

The S&P 500 index posted its worst September since 2002 to finish with a total loss YTD of -23.9%. Rising interest rates led to broadly negative fixed income returns for the third quarter. The 10-year US Treasury yield increased from 2.98% to 3.83%, driving the US Aggregate Bond Index to a -4.8% return this quarter.

There were three general themes that prevailed this quarter, affecting investors and strategies. First, the Fed continued on its path of increasing rates to reverse inflation. The Fed's goal is to get inflation back to 2%. While rate rises are powerful, there is typically a long delay until their impact on the economy is felt. These rate hikes are intended to influence the spending of consumers and businesses; however, they lose impact if spending is driven by lack of supply, i.e. the housing market. How does this affect stocks and bonds? Higher rates could push the economy into a recession which could hurt stocks in the near term. Rising interest rates have a direct impact on bond values. As interest rates rise, bond values decrease. This inverse relationship has led to the weak returns of bond markets overall, with long duration bonds feeling the most pain.

Second, the U.S. Dollar soared to new heights. The strong USD has numerous impacts. Companies that transact business overseas experienced adverse foreign-exchange effects. Smaller companies are more insulated from currency risk because they derive more of their business stateside. As such, small-cap stocks outpaced large caps this past quarter. As consumer spending slows, we expect the USD to soften.

The third theme is whether we will have a recession in the next 12-24 months. Recessions are defined as broad-based contractions in economic activity. Whether we have one or not, what matters is how long and deep it will be. If we do get a recession, we are likely to see job losses. Further, typical earnings decline in a recession 30-40%. However, often times, a recession is over before it is even labeled a recession. Likewise, stocks typically fall in anticipation of a recession and rally before the recession is behind us.

We have experienced all types of market environments through numerous cycles. We firmly believe that our strategic approach to investing provides the best opportunity for long-term success.

Miller Wealth Advisors

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*Sources*


1. *Wall Street Journal, Rising Dollar Boon or Bust, Oct 4, 2022*
2. *Aniban Basir, The Sage Group, Oct 11, 2022*
3. *Valmark –TOPS Quarterly Update Q3 2022, Oct 18, 2022*



*Past performance is not a guarantee of future results. It is also important to note that one cannot invest directly into an index. Diversification cannot assure a profit or guarantee against a loss of value.*

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