SIGHT|LINES

MARKET PULSE

September 13, 2022

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- Equities fell today, led by declines in the communication services and information technology sectors.
- The S&P 500 fell 4.3%, the Dow Jones Industrial Average (Dow) fell 3.9%, and the Nasdaq was down 5.16%.
- Non-U.S. markets were mixed. The DAX (Germany) was off 1.59%, and the Nikkei (Japan) rose 0.25%.
- The Treasury curve inverted further with the U.S. 2-year Treasury settling at 3.74% and the U.S. 10-year at 3.42%.

CATALYSTS

- In recent weeks equity markets had advanced on optimism that supply chains are easing and inflation may be cooling, giving the Federal Reserve (Fed) room to be less aggressive with its future rate hikes. However, today's inflation data topped economist estimates and solidified the Fed's case for a 75-basis-point increase in the federal funds rate at next week's meeting. The data also pushed back investor expectations for a Fed pivot or an eventual easing in monetary policy. The consumer price index (CPI) rose 0.1% from July, after no change in the prior month, and 0.6% when removing the food and energy components. The latest inflation data reignited the debate about the outlook for the global economy and the possibility of a Fed-induced recession. The S&P 500 is down over 16% this year, and we expect volatility to remain, as a number of uncertainties continue to weigh on markets. Read more about how to navigate the rest of 2022 in our latest Sight|Lines.
- *Inflation:* Can the Fed achieve a "soft landing," curbing inflation without causing a recession? While we've gotten two negative quarterly readings of GDP, we don't believe that the U.S. is in a recession.
- *S&P 500 Earnings:* Investors are worried about an economic slowdown and whether or not this is fully reflected in earnings estimates and stock valuations.
- *Ukraine*: Investors are wary that this is the start of a general weaponization of commodities. The European Union is accusing Russia of purposely attacking Ukrainian agriculture in a bid to worsen the global food shortage.
- *China:* The latest outbreak of COVID-19 cases has led to strict lockdowns along with renewed worries of an economic slowdown and possible spillover effects to the global economy, particularly via prolonged supply chain disruptions.

INVESTMENT STRATEGY OUTLOOK

- We are in a period of intense uncertainty, with a wider range of potential outcomes. Volatility will remain high until there is further clarity on some of the items listed above. Clarity, or the lack thereof, on any one of these uncertainties could quickly lead to a sharp change in investor sentiment.
- We expect slowing but positive economic growth, a very good chance the Fed can manage a softish landing and avoid a recession, the prospect of the Fed even being able to pause rate hikes sooner, and a foundation for growing earnings and positive market returns looking forward.
- Our positive outlook for stocks is based on three observations. First, valuations are more attractive, especially for active managers able to find quality companies in this environment. Second, earnings growth may slow some compared to consensus, but we believe earnings will grow at least in the neighborhood of our 6% long-term assumptions. And third, given the prospect of cooling inflation, any shift by the Fed away from its extremely hawkish policy sentiment will likely be met with relief for investors, a strong positive for stocks.

Past performance does not indicate future results. The Standard & Poor's 500 Index is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market. The Dow Jones Industrial Average is an index that shows how 30 large, publicly owned companies based in the United States have traded during a standard trading session in the stock market. The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market, and Capital Market. The Nikkei 225 consists of the shares of the 225 largest companies in Japan. DAX Index consists of the 30 most actively traded German companies on the Frankfurt Stock Exchange.

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