Aspen Wealth Management, Inc.
9300 W. 110th Street, Suite 680
Overland Park, KS 66210
913.491.0500
www.aspenwealth.com

Market Update
(all values as of 09.30.2022)

Stock Indices:

Dow Jones	28,725
S&P 500	3,585
Nasdaq	10,575

Bond Sector Yields:

2 Yr Treasury	4.22%
10 Yr Treasury	3.83%
10 Yr Municipal	3.26%
High Yield	9.50%

YTD Market Returns:

Dow Jones	-20.95%
S&P 500	-24.77%
Nasdaq	-32.40%
MSCI-EAFE	-28.88%
MSCI-Europe	-30.50%
MSCI-Pacific	-25.80%
MSCI-Emg Mkt	-28.91%
US Agg Bond	-14.61%
US Corp Bond	-18.72%
US Gov't Bond	-15.10%

Commodity Prices:

Gold	1,668
Silver	19.01
Oil (WTI)	79.74

Currencies:

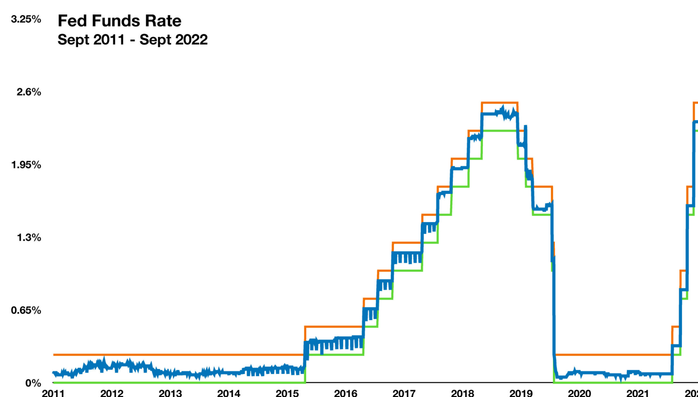
Dollar / Euro	0.97
Dollar / Pound	1.09
Yen / Dollar	144.50
Canadian /Dollar	0.73

Macro Overview

Let's review where the financial markets are and how we got here. In 2020, Covid-19 hit and the world economies shut down. The U.S. Federal Reserve, as well as the European Union, United Kingdom, Japan, and China, "saved the world" by creating/printing money and buying their own government bonds and mortgages. At the same time, the US government (Congress) decided it should give away trillions of dollars. This combination of buying assets and Congressional hand-outs continued for two years into early 2022. These two government programs have caused most everything to increase in value including bonds, stocks, real estate, food, commodities, etc. to the point most assets became extremely overpriced.

Fast forward to now. In the process of saving the global economies, these governments caused inflation to increase from nearly 0% to 9%. Earlier this year, the US Federal Reserve continued to deny inflation concerns as they expected inflation to be "transitory". Well, they were wrong. By the time they figured out inflation was here to stay, it was too late as inflation continued to soar. As a result of high inflation, in March, the Federal Reserve began to increase the Fed Funds Rate or interest rates. Before then, the rate was effectively near 0% from April 2020 until March 2022.

The Fed Funds Rate, which is controlled by the Federal Reserve Board (also known as the Fed), is the interest rate at which banks charge each other to borrow money. The banks, in turn, raise interest rates to their customers. The desired effect of increasing the Fed Funds Rate is more expensive borrowing costs and reduced demand for borrowing money. In other words, the intent is to discourage consumer and business borrowing to pacify rising inflation. This year, the Fed has continued to aggressively increase the rate.



The Fed is now in full panic mode as depicted by the steep ascent of the Fed Funds Rates shown in the chart. As of September 21st, the Fed Funds rate has a target range of 3% to 3.25%, which means the rate has risen 3% in just 7 months with 5 different rate increases. This is the most aggressive rate increase in US history.

Additionally, the Fed is selling the bonds they purchased the past two years. As a result, the bubbles are deflating and asset prices globally are decreasing precipitously. Our US government and the other foreign governments caused the run up, and now they are causing the decline.

(Sources: Federal Reserve, FreddieMac, Mortgage Bankers Association, Treasury Dept., Bloomberg)

Stocks Endure Difficult Third Quarter – Domestic Equity Overview

Equities across the board were down in the quarter ending September 30th, as the market continues to react to global turmoil and the Fed's aggressive interest rate increases. Sectors that held up the best relative to other sectors included biotechnology, healthcare services, and oil/gas, joined by banks, semiconductors, and healthcare equipment.

Corporate earnings are increasingly becoming a focal point as shrinking margins are becoming more apparent in various industries. Inflation and escalating wages continue to dampen margins and induce downward earnings revisions. Various equity analysts believe that the current rallies in equities are bear market rallies with little or no fundamental strength. Optimistically, certain sectors are establishing more attractive valuations as prices have receded.

(Sources: S&P, Dow Jones, Bloomberg)

Short-Term Bond Rates are Higher Than Long-Term Bond Rates – Fixed Income Review

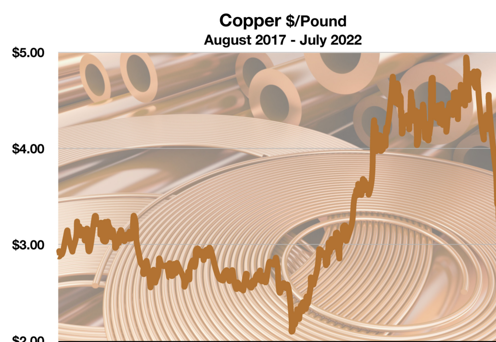
Rising rates are being compounded by the Fed's reversal from buying to now selling U.S. Treasuries and mortgage bonds. Along with the Fed's current increase in short-term rates, the additional selling pressure on the fixed-income market has exacerbated the rapid rise in interest rates.

Short-term Treasury bond yields are now higher than longer-term maturities. This is known as an inverted yield curve. The 2-year Treasury yield finished September at 4.22% while the longer-term 10-year Treasury yield was at 3.83%. An inverted yield curve signals pending economic weakness and possible recession.

(Sources: U.S. Treasury, Bloomberg, Federal Reserve)

Copper down on Global Economic Slowdown – Global Economy Review

Copper is among the most actively traded commodities worldwide. It is a vital piece of global economic growth and a crucial commodity in major industries like construction, power generation & transmission, transportation, and technology. The fast-expanding electric vehicle and environmentally green energy sources of wind and solar use significant amounts of copper.

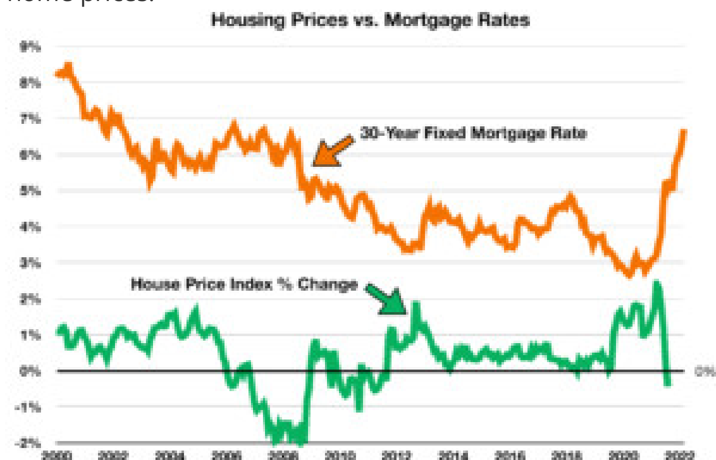


Copper's price per pound as of July 11th reached a low of $3.23, down from its historic high of $4.94 in late February of this year, a drop of around 34%. The decline in the price of copper is a signal of the worldwide economic weakness. European economies are in a clear decline exacerbated by Russia's invasion of Ukraine. The price of copper is another signal of a looming recession.

(Sources: Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PCOPPUSDM)

Housing Affordability: Rising Mortgage Rates Deter New Buyers – Housing Overview

Mortgage rates have a profound, inverse effect on the prices of homes. Rising mortgage rates have caused home prices to drop for the first time in over a decade. From June to July 2022, home prices experienced their first monthly drop of -0.44% since March of 2012. This ended a decade-long surge of rising home prices.



Mortgage rates, as of late September 2022, have reached 6.7%. This is the highest they have been in over 16 years and have not reached this level since July 2006. In January 2022 when 30-year mortgages rates were 3%, the mortgage payment for a $300,000 mortgage was $1,265. Now, at a 6.7% interest rate, the mortgage payment would be $1,936, or 53% higher!

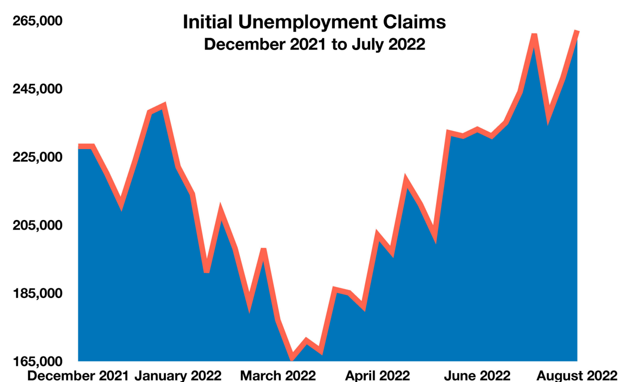
When mortgage rates are at such high levels, they deter new homebuyers, as potential buyers do not want to purchase a home on which they have to pay such high interest. Thus, sellers are forced to drop their home prices to look more favorable to buyers, but such high mortgage rates still end up making most houses more expensive than they were months ago when home sale prices were relatively higher.

Currently, 66% of Americans are homeowners, which is down from the recent high of 70% in 2004. Both percentages are higher than the recent lows in 2016 of 63%. However, these higher mortgage rates are expected to drop the homeownership rate yet again as an increasing number of potential buyers are dissuaded from purchasing a home. Instead, it is expected these potential buyers will continue to rent and wait for mortgage rates drop.

(Sources: U.S Census Bureau, S&P Dow Jones Indices, Freddie Mac, Federal Reserve Bank of St. Louis)

Unemployment Claims On The Rise – Labor Market Overview

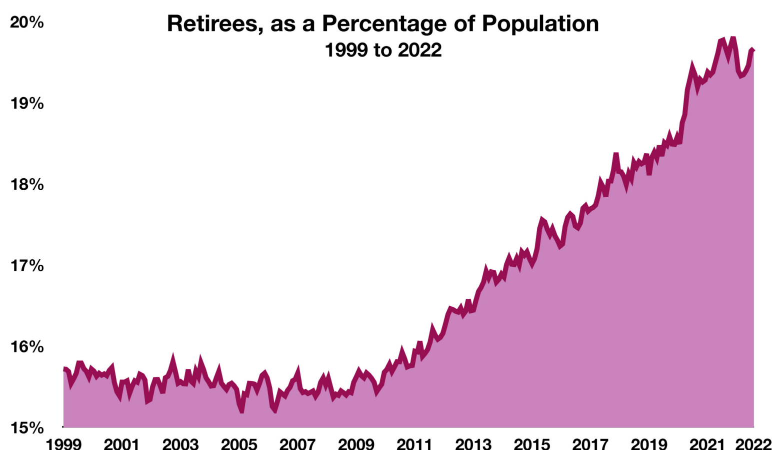
Unemployment claims reached their highest level since late November 2021, and have steadily increased throughout the year. As of the week ending on August 6th, the job market saw initial unemployment claims rise to 262,000. This was an increase of 14,000 claims from the previous week's 248,000 claims and an increase of over 30,000 claims from just 6 weeks prior. This gradual increase in unemployment claims is emerging as uncertainty over the economy expands. Many sectors, specifically tech and real estate, are experiencing stagnated hiring and even layoffs.



With a volatile stock market and a slowing economy, technology companies are easing and even freezing hiring and, in some cases, conducting layoffs. Optimistically, layoffs are not at the high levels they were during the pandemic, but unemployment claims have been steadily increasing. This could foreshadow more uncertainty in an economy that has begun to slow down.

(Sources: U.S. Employment and Training Administration, Federal Reserve Bank of St. Louis)

Retirees Make Up an Increasing Portion of the Population – Retirement Trends



From 2010 to 2020, the annual growth rate of the US retirement population was 0.3% per year. In the first year of the pandemic, an additional 3.6 million peopled retired or 1.3% of the population. The Kansas City Federal Reserve states that the number of retirees each year would have expanded by 1.5 million, but actually expanded by 3.6 million retirees. The increased rate generated over 2 million additional retirees.

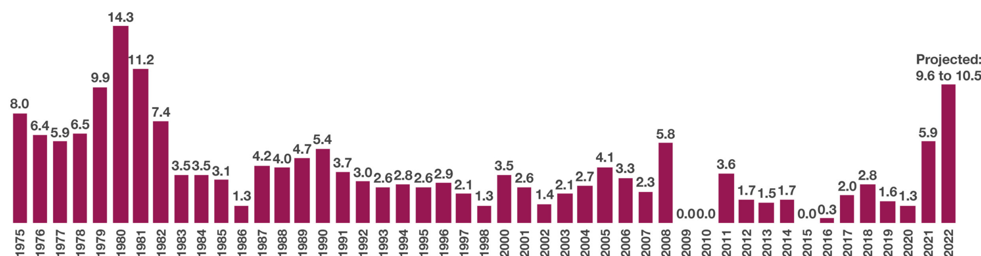
(Sources: Kansas City Fed, U.S. Census Bureau)

Social Security Cost of Living Adjustment Expected To Increase For 2023 – Retirement Planning

Many rely on Social Security and the annual increases known as the Cost of Living Adjustment (COLA) to keep up with inflation. The COLA occurs annually and compares the 3rd-quarter Consumer Price Index for Urban Wage Earners (CPI-W) with its value at the same time the year prior. If the CPI increases, which would indicate an increased cost of living, the COLA adjustment rises accordingly.

With inflation reaching upwards of 9% in June 2022, the cost of living has subsequently grown. Thus, the Senior Citizens League, an advocacy group for elderly citizens, expects this year's COLA to jump a historic amount for 2023. The group predicted a 10.5% increase in June when inflation was at 9.1% and a jump of 9.6% in July when inflation cooled down ever so slightly to 8.5%. This response to elevated living costs would be the biggest adjustment since 1981.

Social Security COLA Increases, 1975 - 2022



The Senior Citizens League also noted in its preliminary report that if inflation would continue to be rampant, the COLA could reach over 10%, yet if inflation cools down the adjustment could be closer to 9.3%. The current average Social Security benefit comes in at just over $1,600 and the adjustment could raise it by $159, according to a Senior Citizens League Policy Analyst. However, much of this increase gets eaten up by increases in Medicare costs, which in some cases even results in fewer benefits for seniors despite COLA increases.

(Source: Senior Citizens League, Social Security Administration)

Market Returns: All data is indicative of total return which includes capital gain/loss and reinvested dividends for noted period. Index data sources; MSCI, DJ-UBSCI, WTI, IDC, S&P. The information provided is believed to be reliable, but its accuracy or completeness is not warranted. This material is not intended as an offer or solicitation for the purchase or sale of any stock, bond, mutual fund, or any other financial instrument. The views and strategies discussed herein may not be appropriate and/or suitable for all investors. This material is meant solely for informational purposes, and is not intended to suffice as any type of accounting, legal, tax, or estate planning advice. Any and all forecasts mentioned are for illustrative purposes only and should not be interpreted as investment recommendations.