Recession! Inflation! Recession! Inflation! These are the reasons for the significant stock market sell off in the third quarter. In the past the Federal Reserve would lower rates to spur the economy and markets. But, this time it is different! They have to reduce inflation by increasing rates to tamp down demand and rising prices caused by too much money chasing too little supply. There are lots of reasons for this including: Covid, the war in Ukraine, the war on fossil fuels and a high spending level by the Federal Government.

These factors are reflected in the third quarter results. The DJIA was down -6.2%, the S&P 500 was down -4.9% and the Bloomberg Aggregate Bond Index was down -4.8%. With interest rates increasing, bond prices were driven lower (bond prices move inversely to rates) leaving no place to take shelter other than in cash/cash equivalents. This year’s bond losses are exceeded only by those experienced following both world wars and the great depression!

Internationally, with the exception of Latin American (+4.6%), and India (+4.7%), the international markets did not fare any better for the quarter than the U.S. China, in particular, was down -21.0% likely due to the lingering effects of Covid. As the quarter drew to a close, the new government in the UK demonstrated the dramatic and destabilizing effect that can result from fighting inflation and the fuel price surge with an ill -conceived plan. Looking back over the past 12 months, results for major international markets were negative across the board.

The Federal Reserve increased rates by +0.75% in both July and September. More increases are expected as the Fed continues to try to wring inflation out of the economy. The goal is an inflation rate of about 2%, down from the current 8+%. A tough job so we can expect more rate increases. Of course, the administration must cooperate by eliminating/relaxing restrictions on fossil fuel production and stopping excessive spending. Results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 9/30/2022** | **12 MONTHS Ending**  **9/30/2022** | **THREE YEARS Ending**  **9/30/2022** | **FIVE YEARS Ending**  **9/30/2022** |
| **DJIA** | -6.2% | -13.4% | 4.4% | 7.4% |
| **S & P 500** | -4.9% | -15.5% | 8.2% | 9.2% |
| **NASDAQ Composite** | -4.1% | -26.8% | 9.8% | 10.2% |
| **Bloomberg Agg. Bond** | -4.8% | -14.6% | -3.3% | -0.3% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
| *Large Cap* |  |  |  |  |
| Growth | -4.1% | -27.1% | 6.8% | 9.0% |
| Value | -5.9% | -9.7% | 5.3% | 5.7% |
| *Small Cap* |  |  |  |  |
| Growth | -1.4% | -30.0% | 5.2% | 6.4% |
| Value | -4.9% | -14.3% | 6.0% | 3.4% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| International |  |  |  |  |
| Europe | -10.5% | -26.9% | -1.1% | -1.2% |
| Latin America | 4.6% | -6.6% | -5.5% | -2.1% |
| Japan | -4.7% | -24.2% | -1.1% | -0.6% |
| Pacific ex Japan | -13.1% | -29.7% | -0.3% | 0.7% |
| China | -21.0% | -33.9% | -2.2% | -2.3% |
| India | 4.7% | -13.2% | 9.2% | 4.1% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 9/30/2022** | **12 MONTHS Ending**  **9/30/2022** | **THREE YEARS Ending**  **9/30/2022** | **FIVE YEARS Ending**  **9/30/2022** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
| Long | -8.0% | -25.5% | -6.1% | -0.7% |
| Intermediate | -4.6% | -14.8% | -3.2% | -0.4% |
| Short | -1.6% | -6.7% | -0.6% | 0.7% |
| Government Bond |  |  |  |  |
| Long | -10.8% | -28.5% | -9.1% | -2.0% |
| Intermediate | -4.7% | -12.8% | -3.2% | -0.7% |
| Short | -2.1% | -6.3% | -1.2% | 0.1% |
| Municipal Bond |  |  |  |  |
| Long | -4.2% | -14.1% | -2.8% | 0.1% |
| Intermediate | -3.0% | -10.6% | -1.8% | 0.4% |
| Short | -1.2% | -4.2% | -0.5% | 0.4% |

**Market Outlook**

Given the current rate of inflation, the Fed will continue to raise interest rates. This is not good for the economy/markets in the short term but should be beneficial in the long term. As recent economic data displays, reducing inflation takes time. We can expect market ups and downs for a while, hopefully, not too long.

As mentioned last quarter, we recommended a reduction in equity positions. These reductions should be maintained. Depending on your financial position a further reduction in your equity position may be appropriate. Proceeds should be invested in Ultra Short-Term Bond Funds, CDs and/or Treasuries.

**MSM FINANCIAL STRATEGIES**

**10/4/2022**

*@Copyright 2022 MSM Financial Strategies*