



Quarterly Market Summary – Q3 2022

Market Results as of the Third Quarter of 2022

Selected Index Results for Q3 – 2022

<u>Index⁽¹⁾</u>	<u>%Growth For FY 2021</u>	<u>%Growth For YTD 2022</u>	<u>%Growth For Q3 2022</u>
DJIA	18.73%	-20.95%	-6.66%
Core U.S. Aggregate Bond Index (U.S. multi-sector bond)	-3.48%	-15.55%	-5.25%
S&P 500 (large cap)	26.89%	-24.77%	-5.28%
S&P 400 (mid cap)	23.21%	-22.47%	-2.88%
Russell 2000 (small cap)	13.69%	-25.86%	-2.53%
MSCI EAFE Index (developed international)	7.84%	-28.81%	-10.37%
iShares MSCI Emerging Market Index	-5.46%	-28.60%	-13.02%
iShares Dow Jones US Home Construction	48.60%	-37.24%	-0.88%
MSCI US REIT Index	38.61%	-30.15%	-11.00%
Amex Oil Index	48.67%	27.65%	0.76%
Barclays Global Agg ex-US Corp Bond Index	-8.73%	-27.46%	-10.58%

(1) These results do not include reinvestment of dividends.

Q3 Quick Summary

- Global forecasts for economic growth were revised downward for the second straight quarter, due primarily to the impact of central bank actions, combined with the an energy crisis in Europe and a real estate slowdown in China. Geopolitical uncertainties remain high, particularly in Europe.
- The U.S. inflation rate moderated somewhat in the third quarter, declining to 8.3% year-over-year in August. Although fuel prices declined significantly, inflation in other core areas of the economy remained stubbornly high.
- A number of central banks took action to address inflation concerns, including the U.S. Federal Reserve. The Fed has maintained its commitment to bring inflation down to historical levels around 2%.
- The U.S. Federal Reserve raised the benchmark borrowing rate by 0.75% in both July and September and is expected to continue to raise rates aggressively. The current Federal Funds target range is 3.00% to 3.25%.
- The weakening of developed-market currencies against the U.S. dollar has exacerbated the impact of higher inflation around the world, particularly in the Euro zone and the U.K. Moreover, higher market volatility and a less stable global financial system will increase the degree of difficulty for the Fed to engineer a soft economic landing.



Growth Forecasts Weakening

The global economy is slowing and there is no single factor behind the lethargy. In Europe, an energy crisis is battering household finances and weighing on industrial output. China is reckoning with the fallout of its real estate slowdown and strict COVID controls. In North America, central banks are rapidly tightening policy to cool the surge in inflation powered by a return of post-lockdown consumer activity and excess savings. Monetary authorities around the globe have their work cut out for them, with increasing questions on whether they can pull off a soft landing: reduce demand enough to wrestle inflation down from 40-year highs, without crashing their economies into a deep or prolonged recession.

Compared to June forecasts, economists have reduced the global growth outlook modestly for 2022, and the outlook for 2023 has deteriorated substantially, with growth expected to advance 2.2% – down from 2.7% in June. The deepening energy crisis in Europe is expected to buckle the economy as the year progresses. Limited natural gas supplies reflect a supply-side shock that ultimately reduces the productive capacity of the economy. Establishing new energy supply lines will take time. In the interim, some firms will be unable to operate, and others will face higher energy input costs that compress margins. Given the backdrop, ongoing fiscal support for worker retention schemes and to offset rising gas costs will be critical to mitigating the reduction in labor demand but is unlikely to prevent it.

In China, below-trend growth is set to continue through 2023 as depressed consumer confidence and the sagging real estate market weigh on output. Moreover, soft export growth amid weaker demand from advanced economies will offset the competitive benefits of a weaker currency. That said, a policy pivot could counter the decidedly gloomy outlook. For instance, further relaxation of COVID containment policies and additional support for the real estate market can help to restore consumer confidence, but it is unlikely that the government will embrace such a pivot. If it does, it would help lay the foundation for a stronger bounce-back in 2023.

U.S. economic growth disappointed through the first half of the year, with the average of Q1/Q2 growth contracting by 1.1%. This outcome was at odds with other measures of economic activity – such as gross domestic income – that showed an expanding U.S. economy over the same period. Neither measure is perfect, and the reality likely lies somewhere in the middle. Either way, the slowdown in domestic demand has not been sufficient to take the heat off inflation, which continues to surprise to the upside. This has led to expectations of a more aggressive path for monetary tightening through the remainder of this year.

Inflation Remains Stubbornly High

The unexpectedly strong inflation numbers for August put to rest the notion that we've entered a new phase of rapidly moderating price growth, despite some nascent signs that inflation has peaked. Inflation is showing more persistence across both goods and service categories. This has led to an upward revision to the near-term inflation outlook and more persistence. Annual and monthly gains in the Consumer Price Index (CPI) have eased from their peaks, suggesting at the very least the inflation rate is no longer rising at the brisk pace of this summer. While that bodes well for consumers and investors, it doesn't provide much clarity about when (or by how much) the Fed might adjust its aggressive campaign of interest rate

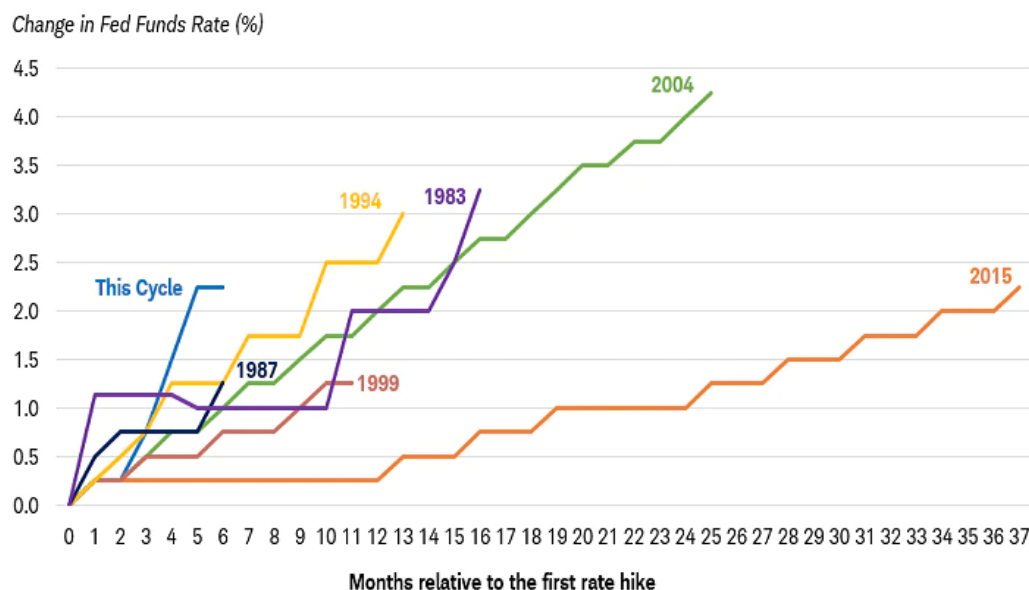
increases. Inflation is still above the Fed's 2% goal, while nominal income growth and demand for labor remain strong.

How strong? One telling measure is that workers who frequently switch jobs enjoy much stronger wage growth than those who remain in their positions longer—in fact, the spread is the widest in history. Such conditions are typically accompanied by higher quit rates, suggesting companies are still competing for workers. The Fed could see that as a risk, as it suggests inflation expectations may remain elevated.

Central Banks Take Action

In mid-September, investors digested the news that the Bank of England, U.S. Federal Reserve and Sweden's central bank raised policy interest rates by 50, 75 and 100 basis points, respectively. The Federal Reserve delivered another jumbo-sized rate hike at its September meeting, lifting the upper bound of the fed funds target range by 75 basis points to 3.25%. Citing the need to bring down inflation and keep it down, the Fed's projection indicates that it's likely to continue raising the rate to a peak level of 4.6% in 2023, implying roughly 150 basis points in additional hikes. In a recent speech, Fed Chair Powell left no doubts that his number one priority is to bring inflation down, even though it will likely cause "pain for some households and businesses."

In addition, the Fed is picking up the pace at which it is allowing its holdings of bonds to shrink, which is another way to tighten policy. Because changes in monetary policy take a while to work into the economy, we aren't likely to see the impact of these moves until later in the year—even after accounting for the fact that this has been the fastest rate hiking cycle in modern history and the economy has already slowed.



Note: Data is the short-term interest rate targeted by the Federal Reserve's Federal Open Market Committee (FOMC) as part of its monetary policy. Lines represent the cumulative change in the Fed funds target rate from the start of each rate hike cycle shown. For the current cycle, the fed funds target rate has risen 2.25%, from a 0.25% to 2.5%.

Source: Bloomberg, Federal Funds Target Rate - Upper Bound (FDTR Index), using monthly data. **Past performance is no guarantee of future results.**



All signs now point to the Fed maintaining its hawkish stance in the near term—and so the odds of the central bank sticking a so-called soft landing continue to shrink. Inflation rates may be slightly below their peak, but they are still far above Fed targets. A strong labor market, meanwhile, is keeping wage growth at a healthy level, potentially at a point where it could encourage inflation expectations. Economic growth is slowing, and signals from abroad suggest more sluggish conditions may soon be upon us. For now, though, the Fed sees plenty of reasons to keep tightening.

Strength in the U.S. Dollar

Weighing on the U.K. and multiple countries around the world has been the relentless rise of the U.S. Dollar over the past year. The Dollar has appreciated against the Euro, Yen and Pound by at least 15% in 2022. Japan notwithstanding, the collapse of developed-market currencies has exacerbated the impact of higher inflation around the world, especially in Europe, which is feeling a sharper impact from the war in Ukraine and its attendant ripple effects on energy prices.

In the U.S., a strong dollar has also become tough to grapple with this year. On the one hand, its rise has helped to stem at least some of the burden from hotter inflation and solidify the United States' status as a relative haven. However, given about 40% of S&P 500 earnings originate from overseas, the dollar's strong and swift increase has dealt a blow to many U.S. corporations' bottom lines. This is unwelcome at a time when profit margins are thinning, demand is slowing and most global central banks are hiking interest rates.

Moreover, the pace of the Fed's rate increases, stronger growth prospects (relative to other countries) and distance from the European energy crisis, have likely also added to confidence in the dollar. For many countries, increased U.S. confidence has been a painful price to pay. When measured against a basket of major developed-market currencies, and adjusted for inflation, the dollar is near its strongest level since the mid-1980s.

Conclusions

Economic uncertainty may be reaching a peak, but we believe it will remain high for the remainder of this year. Having a well-balanced, diversified portfolio, with a risk profile consistent with your goals, and being prepared with a plan in the event of an unexpected outcome are keys to successful investing.

Projecting stock market direction is always rife with problems, doing so in such an environment can quickly make even the most thoughtful projections irrelevant. In a rapidly growing economy with rising inflation, assets with exposure to high nominal growth rates, including value stocks and commodities, may hold up well, whereas bonds could struggle. Should tightening Fed policy, higher inflation or a change in consumer sentiment start to weigh heavily on the economy, however, bonds will be seen as a safe-haven alternative to equities. This highlights the benefits of a well-diversified portfolio and a consistent investment strategy to navigate through the volatility.

Fundamentally, stock valuations are based on long-term expectations for dividend payments and price appreciation. Assuming continued success in combatting the virus and returning the economy to more "normal" levels of activity, the long-term impact on economic growth and equity values should not be significant. However, as we have stated previously, the ongoing and unprecedented level of government



stimulus, both fiscal and monetary, continues to raise concerns about deficit spending and the corresponding growth in national debt. While such stimulus may be critical in times of stress, the long-term implications for economic growth are likely to be negative. In the near term, uncertainties around these policies (among other developments) will likely result in continued high levels of market volatility.

In periods of higher market volatility, maintaining investment discipline will be more difficult emotionally. However, we need to remember that market timing as an investment strategy has never worked consistently (and results in lower longer-term yields). Trying to time markets has a high probability of creating permanent losses.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment environment). There is no reason to believe, even with the changing economic dynamics, that the disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs then those funds should be in short term investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don't try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to), a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven't had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, vaccine missteps, other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.

Please note that you are entitled to receive Fullen Financials' Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Paula Miller (paula@fullenfinancial.com) and requesting such. Alternatively, you can go to the Fullen Financial website at www.fullenfinancial.com and click on "Resources" in the top menu bar, and then on "Client Forms."

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Appendix: Economic Indicators and Outlook

Economic Indicators: G7 & Europe				
	2021	2022F	2023F	2024F
Real GDP (annual per cent change)				
G7 (30.1%)*	5.1	2.0	0.4	1.2
U.S.	5.7	1.6	0.7	1.2
Japan	1.7	1.5	1.5	1.1
Euro Area	5.2	3.1	-0.2	1.4
Germany	2.6	1.6	-0.9	1.6
France	6.8	2.6	0.2	1.4
Italy	6.6	3.3	-0.3	1.2
United Kingdom	7.4	3.5	-0.7	0.9
Canada	4.5	3.3	0.9	1.0
Consumer Price Index (annual per cent change)				
G7	3.2	7.2	4.0	1.9
U.S.	4.7	8.1	3.7	2.1
Japan	-0.2	2.0	1.5	1.2
Euro Area	2.6	8.2	5.6	1.8
Germany	3.2	8.2	5.7	1.8
France	2.1	6.4	4.8	1.9
Italy	1.9	7.9	5.9	1.8
United Kingdom	2.6	8.9	5.6	2.1
Canada	3.4	6.9	3.8	2.1
Unemployment Rate (per cent annual averages)				
U.S.	5.4	3.7	4.2	4.9
Japan	2.8	2.6	2.5	2.4
Euro Area	7.7	6.8	7.5	7.6
Germany	5.7	5.4	6.0	5.7
France	7.9	7.6	8.2	8.0
Italy	9.5	8.3	9.2	9.2
United Kingdom	4.5	3.8	4.6	4.9
Canada	7.4	5.4	6.1	6.5
*Share of 2019 world gross domestic product (GDP) at PPP. Forecast as at September 2022. Source: National statistics agencies, TD Economics.				

Global Economic Outlook				
Annual Per Cent Change Unless Otherwise Indicated				
	2019 Share*	Forecast		
Real GDP	(%)	2022	2023	2024
World	100.0	2.8	2.2	3.0
North America	19.2	1.8	0.8	1.2
United States	15.8	1.6	0.7	1.2
Canada	1.4	3.3	0.9	1.0
Mexico	1.9	2.2	1.6	1.8
European Union (EU-28)	15.4	3.2	-0.1	1.6
Euro Area (EU-19)	12.5	3.1	-0.2	1.4
Germany	3.5	1.6	-0.9	1.6
France	2.4	2.6	0.2	1.4
Italy	2.0	3.3	-0.3	1.2
United Kingdom	2.4	3.5	-0.7	0.9
EU accession members	2.9	3.1	0.0	2.5
Asia	43.2	3.0	3.7	4.5
Japan	4.1	1.5	1.5	1.1
Asian NIC's	3.5	2.5	2.2	2.5
Hong Kong	0.3	-1.2	2.9	2.3
Korea	1.7	2.7	2.0	2.5
Singapore	0.4	3.4	2.5	2.6
Taiwan	0.9	3.3	2.4	2.9
Russia	3.1	-6.4	-6.1	1.9
Australia & New Zealand	1.2	3.7	2.2	2.2
Emerging Asia	31.4	4.1	5.2	5.5
ASEAN-5	5.7	5.6	5.1	5.2
China	17.3	2.6	4.2	4.8
India**	7.1	6.5	7.4	7.3
Central/South America	5.6	3.7	1.3	2.3
Brazil	2.4	2.6	0.8	2.0
Other Emerging Markets	13.0	2.7	2.7	3.1
Other Advanced	1.1	3.8	2.4	2.2
*Share of world GDP on a purchasing-power-parity (PPP) basis. Forecast as at September 2022. **Forecast for India refers to fiscal year. Source: IMF, TD Economics.				

Important Disclosures: This material is for informational purposes only. It is not intended as and should not be used to provide investment advice and is not an offer to sell a security or a recommendation to buy a security. This summary is based exclusively on an analysis of general market conditions and does not speak to the suitability of any specific proposed securities transaction or investment strategy.

Judgement or recommendations found in this report may differ materially from what may be presented in a long-term investment plan and are subject to change at any time. This report's authors will not advise you as to any changes in figures or views found in this report.

Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.



Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.