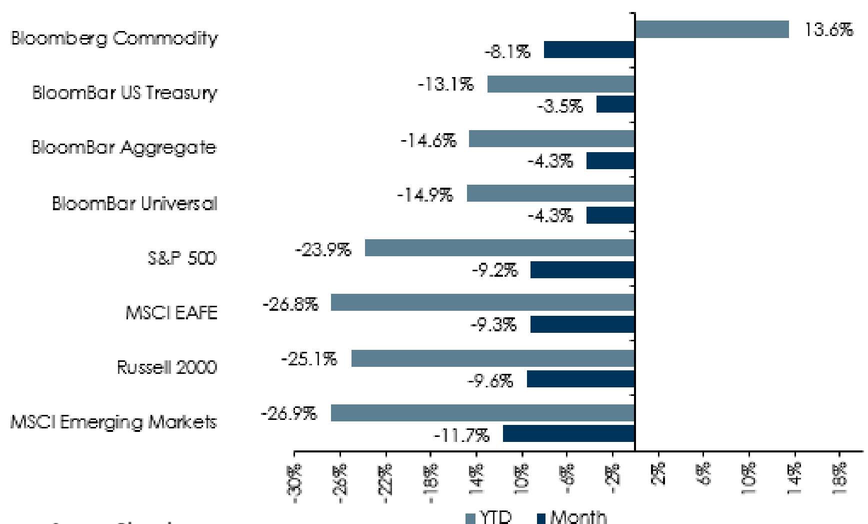
Stocks and bonds both continued their retreat in September as growth fears were fed by central banks remaining resolute in their fight against inflation. The US Fed hiked rates by 75 bps for a third straight meeting while setting expectations for similar hikes to end the year with their forward guidance. A higher than expected CPI inflation result, with core inflation rising 0.6% MoM vs 0.3% expected, emboldened the Fed to continue to act aggressively. While the labor market cooled modestly from July's pace, it remained strong and wage growth stayed steady, further supporting the Fed's actions. Central banks in several developed and emerging markets – including the U.K., Switzerland, Norway, Sweden, and the EU – also aggressively raised policy rates to fight inflation, even as fears of a global recession have grown. In Europe, the Ukraine conflict and energy crisis showed no signs of abating as key pipelines suffered suspected sabotage and Russia held referendums in occupied territories that will likely lead to additional sanctions, further imperiling global growth and complicating the inflation fight.

- **Global Equity** – Equity markets gave back the rest of the summer's gains to hit new YTD lows in September. US markets outperformed non-US as growth concerns and currency impact weighed on returns. Index level P/E multiples on forward earnings moved lower even as forward earnings outlooks have softened, and current valuations sit below historic averages for all major indices. US Dollar strength continued to play a key role in the underperformance of non-US indices, with the British Pound hitting its lowest level ever against the dollar. Equity market volatility is likely to continue given central bank policy risk, Europe's energy crisis, and China's struggles with Covid lockdowns and a real estate slowdown. Valuations are supportive, but with growth below trend and further downward revisions possible, equities remain vulnerable.

- **Global Fixed Income** – Global bond yields were higher in September following aggressive central bank activity. Bond market volatility rose as new UK fiscal policy measures were received unfavorably, forcing the Bank of England to announce a bond-buying program as an intervention. In the US, the 10-year treasury yield briefly topped 4% before undergoing its largest 1-day drop since 2020, but still finished the month sharply higher. Credit spreads moved wider, with investment grade credit widening 19 bps and high yield widening 68 bps. An approaching end to the tightening cycle will help limit additional duration downside, and higher yields have improved the outlook for core bonds going forward. Spreads could widen further in a recession scenario but strong corporate balance sheets should soften the impact to credit of a growth slowdown. Volatility in rates and currency should provide enhanced opportunities for absolute return strategies, which can also offer downside protection. A cash allocation provides portfolio flexibility while rising front-end yields have improved the asset's return potential.

- **Global Real Assets & Private Markets** – Core real estate returns declined from the last several quarters' record pace, but maintained strong positive performance. Weaker returns were felt across all sectors except hotels, though industrial property returns continue to lead sector performance. New deal activity in private equity continues to slow from 2021's elevated rate but overall remains at healthy levels. The broad commodities index declined in September amid fears a global slowdown would weigh on demand, with oil falling far enough that OPEC+ is expected to make a large production cut in October. Core CPI rose +6.3% year-over-year, exceeding expectations with its rise from 5.9%. Measures of future inflation expectations were sharply lower, with the 10-year inflation breakeven down 33 bps to 2.15%, the lowest point for that measure since February 2021.

Key Market Indices



Source: Bloomberg

	Current	21-Dec
US GDP (%)	-0.60	2.30
US Unemployment (%) *	3.70	4.20
CPI (Core) (%)	6.30	4.90
Fed Funds (%)	3.00 – 3.25	0.00 – 0.25
10 Year UST Yld (%)	3.83	1.51
S&P 500 Div Yld (%)	1.85	1.27
S&P 500 P/E (Trailing)	17.58	26.21
Gold/oz.	$1,662.40	$1,828.60
Oil (Crude)	$79.49	$75.21
Gasoline (Natl Avg)	$3.83	$3.38
USD/Euro	$0.98	$1.14
USD/GBP	$1.12	$1.35
Yen/USD	¥144.74	¥115.08

* As of August 31, 2022

Source: Bloomberg

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