QUARTERLY MARKET COMMENTARY: 2022-Q3

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Recession concerns continued to stalk capital markets throughout the Third Quarter after a difficult first half of the year despite softening inflation data. A Consumer Price Index (CPI) spike of 9.1% in June was followed by a relatively lower July reading of 8.5%. This provided a basis for markets to recover in August, pushing the Dow Jones Industrial Average (DJIA) back above 34,000. This visit to fair market valuation was short-lived due to Fed Chairman Powell's hawkish speech in Jackson Hole on August 26th. Adding a hotter than expected August CPI reading of 8.3% just provided another catalyst for markets to remain under pressure.

We take a moment to step back and reflect on our current data fixation while observing the extreme market swing caused by the September CPI report of 8.2%. Seeking answers to existing uncertainty surrounding inflation, interest rates and a recession has created a tunnel vision like our focus on COVID data at the beginning of the pandemic. While looking for answers in patterns of newly reported cases and fatalities, we were able to break out of the hypnotic trance when we realized that COVID did not exist for the purpose of generating short-term patterns for us to interpret. There is a current need to prevent ourselves from falling into the same current state of mind that exists for our overall industry, where near-term volatility is driven by every piece of new data.

Relative simplification may be a solution to dealing with the various challenges we currently face. Looking beyond individual data points to avoid knee-jerk reactions is our preferred approach in responding to macro-economic factors. As stated in our prior commentary, we are proceeding ahead assuming we are already in a recession. This perspective avoids the confusion caused by "moving" definitions of what constitutes an actual recession. Our long-term focus is to monitor inflation and interest rates to determine the duration of the current recession and its impact on capital markets. Understanding that inflation is a primary concern that needs to be addressed for long term sustainable economic growth, we support rate increases by the Federal Reserve up to a certain point. We are comfortable with a target Federal Funds Rate of 4.5% in 2023 and are not as concerned by the path taken to get there.

Markets remain oversold based on our evaluation of fundamentals. We believe the industry's obsession with inflation reports is driven by the search for an inflection point in inflation. While fundamentals have softened somewhat over the past month based on projections, we believe the sooner we see a Fed transition from "hawkish" to "dovish," the higher the capacity for recovery. Based on our perspective, our question is not "Are we going into a recession?" but "When do we recover?" Should the inflection point remain elusive, the timing of the recovery would be pushed back. We continue to focus on positioning portfolios for a recovery with an eye on downside risk. Like prior economic storms, we believe time will help solve the current situation. For now, our near-term DJIA target upon convincing signs of a decrease in inflation is 33,000.

We continue to expect near-term volatility in portfolio values which can be unnerving relative to high water marks established earlier this year. Should you have any concerns, please reach out to your advisor. We are here for you and communication is key to navigating through these challenging times. We will get through this together.

This report was written by David Y. Sun, CFA. It is a recap of the market conditions from the previous quarter and is for information purposes only.