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Weekly Update – September 26, 2022

Market Returns Ending 9/23/2022			
Category	1 Week	QTD	YTD
US			
Large Cap	-4.6%	-2.1%	-21.6%
Mid Cap Growth	-6.5%	0.0%	-31.0%
Mid Cap Value	-5.9%	-2.5%	-18.3%
Small Cap	-6.6%	-1.4%	-24.5%
International			
Developed	-3.0%	-5.5%	-23.7%
Emerging	-2.2%	-6.8%	-23.1%
Bonds			
Aggregate	-1.3%	-3.6%	-13.5%
Treasuries	-1.1%	-3.6%	-12.4%
High Yield	-0.8%	1.7%	-12.7%

US Equity Style Returns

1 Week

	Value	Core	Growth
Large	-5.2	-4.9	-4.6
Mid	-5.9	-6.1	-6.5
Small	-6.1	-6.6	-7.1

YTD

	Value	Core	Growth
Large	-15.6	-22.5	-28.6
Mid	-18.3	-22.8	-31.0
Small	-19.3	-24.5	-29.7

Source: Bloomberg

Key Events: Russia actions exacerbate concerns about inflation and the US economy

Two key events drove the markets this week. First, in a surprise escalation, Vladimir Putin ordered the partial mobilization of the Russian population, repeated threats of nuclear war, and staged annexation referendums in occupied areas.

Later Wednesday afternoon the Federal Reserve met and raised rates .75%, as expected. In the outlook and press conference, the Fed confirmed its commitment to fight inflation despite the expected rise in unemployment, this despite the Fed's dual mandate of price stability and full employment.

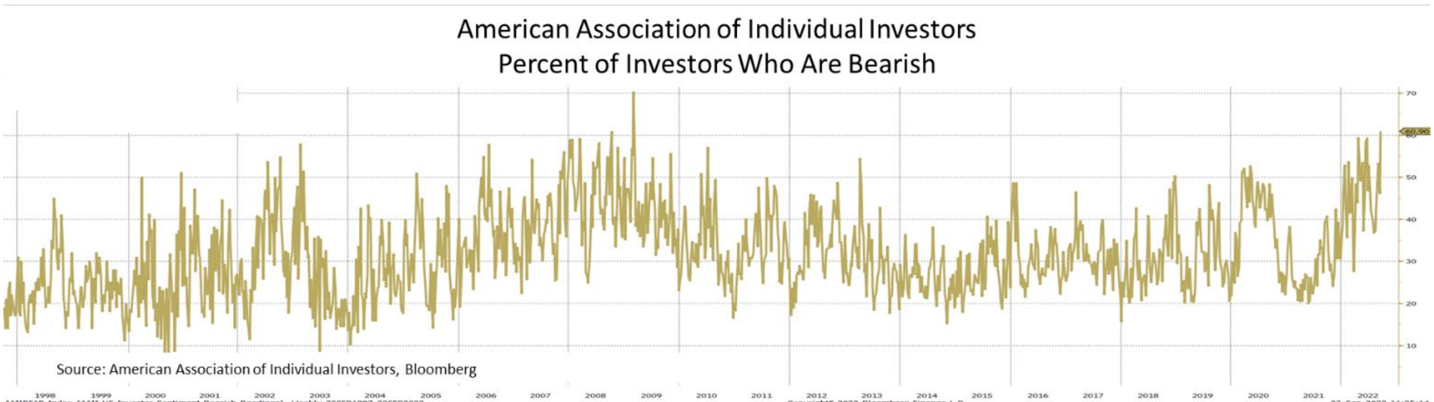
Market Review: Markets retest summer lows

The stock market sold off significantly throughout the week. After selling off 4.7% last week, the S&P 500 finished the week down another 4.6%. As happened last week, international stocks lost less than US stocks, although they are still down more for the year. The S&P 500 currently sits at its 2022 low while international stocks, measured by the MSCI EAFE, are down a further 4.8% below the June lows in US Stocks.

The more significant move was the sharp rise in interest rates, reflective of a reaffirmation of the Fed's commitment to fight inflation. The two-year treasury yield closed the week at 4.19% on Friday, up from 3.49% at the end of August. Ten-year treasury yields also moved higher, ending the week at 3.68%, .51% below the two-year yield, an "inversion" in the yield curve. The increase in bond yields is in the top 10% of increases in the last 20 years over the 1 week, 1-month and 3-month time periods[1].

<u>Outlook:</u> Expect continued volatility while the markets seek to find a bottom

The inversion of the yield curve reflects the significant fear that the economy will go into recession and the Fed will need to lower rates in the future. Our base-case view is that stocks expect a mild recession, but further economic weakness could lead to further stock market losses. We will be watching the market action closely next week to confirm our thesis that a medium-term bottoming process is playing out. Valuations in both the bond and stock markets are compelling. As seen in the below chart, when investors are very bearish, such as in 2008, returns in the coming year tend to be very strong. While we don't know where the bottom is, history – while not repeating – tends to rhyme, giving us some confidence in the outlook.



1) Source: Bloomberg, OneAscent Investment Solutions

Navigator **Outlook: September 2022**

VALUATION

- Stocks and bonds have both become more attractive
- Stocks remain cheaper than bonds
- US large growth stocks are still more expensive small and international stocks
- Investment grade and high yield bonds have become more attractive as rates have increased

ECONOMY

- The Federal Reserve remains committed to fighting inflation
- The energy crisis and war in Ukraine create higher recession risks outside the US
- In the US, employment remains strong
- Corporate earnings may suffer further downside revisions

SENTIMENT

- Investor sentiment remains relatively bearish
- The University of Michigan and Conference Board surveys of Consumer Sentiment and Expectations remain low
- Historically low consumer sentiment offset by bearish investor sentiment, a contrarian indicator, renders overall sentiment as slightly positive

TECHNICAL

- Short term technical indicators are oversold again
- Longer-term measures of market breadth and are trending in a positive direction
- Indicators are telling us the markets may be developing a new positive trend, although near-term volatility is likely
- Long-term indicators are favorable for stocks

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