# QUARTERLY UPDATE

SEPTEMBER 30, 2022

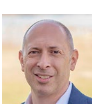
## HAS INFLATION FINALLY PEAKED?

The 3rd Quarter 2022 has been a roller coaster for markets, both the stock market and the bond market. Inflation is the culprit as well as the interest rate policy response from the Federal Reserve. The Fed raised rates by 1.50% in the quarter; .75% in July and .75% in September, with the Fed Funds rate now sitting at 3.0%-3.25%. At the September meeting, as well as during the Jackson Hole Economic Symposium in August, it became clear that an interest rate cut in 2023 was not in the cards. In addition, a review of the “dot plot” graph within the Fed’s Summary of Economic projections that was released on September 22, we should expect a 4.0%-4.5% Fed Funds rate into and through 2023. However, the projections get less reliable as we look into 2024 and 2025. But that will firmly be dependent on the path of inflation.

There are several leading indication signs that inflation will moderate. After spiking in 2021 and into 2022, used car prices sank 4% in August to the lowest level since last September, according to Manheim data. After two significant price hikes in 2021 and 2022, Chicago lumber futures tumbled to $400 per thousand board feet, a level not seen since June 2020 and down more than 70% from their March peak. On September 30, 2022, Nike announced that inventory was up 44% and they will use markdowns to clear the glut. And last, but certainly not least, West Texas Intermediate (WTI) crude oil is trading at $76/barrel after peaking at over $120/barrel in June 2022. This has caused the average price of gasoline in the US to drop from a peak of $5.02 in June to $3.79. Still elevated but moving in the right direction.

The market reaction to the elevated inflation and higher interest rates has been significant. The 2-year US Treasury rate is now 4.16%, up significantly from the 2.84% level that we started the quarter at. Most equity markets are down between 15%-20% in the quarter. This is largely due to the concerns that higher inflation is hanging around longer and that interest rates policy response is more restrictive than originally thought, causing a more protracted slowdown or recession. The uncertainty as to the impact of the Fed’s action and the impact on inflation and economic growth will continue to lead to equity market volatility. As I had mentioned in August, we are keenly aware that interest rates are rising, and growth is slowing. However, we still believe that a hard-landing or deep recession seems less likely than the other scenarios. Inflation will moderate, the unemployment rate is at historical lows, wages are strong and consumer confidence is high. These are good indications that we will avoid a hard landing.

In our portfolios, we continue to maintain overweight equity positions in US, Value, and Quality. We believe that this approach is best positioned to both withstand an economic slowdown while benefit from the ensuing recovery. Our approach to Fixed Income has worked very well. Selling longer dated exposure and buying short-term and floating rate helped to buffer the decline in bond prices. With the opportunity to extend duration with rates at multi-year highs, we will be making some changes in the coming weeks. While we recognize that the global economy has slowed from the V shaped recovery coming out of the Covid-19 induced recession, we are confident that inflation will moderate, and the slowdown will be mild. Portfolios are positioned accordingly, and we are ready to act if the picture changes.



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## DISCLOSURE