09.30.22

KEEP CALM AND CARRY ON

As we say goodbye to the longest reigning British monarch (and 2nd longest reigning of all time), perhaps we should take a page from Queen Elizabeth II's playbook. Always stalwart and steadfast, she did not allow the little things fluster her but kept an eye on the long-term goal. Whether it be a World War or a coal miners' strike, Prince Harry and Megan's thumbing their nose at the royal family or worse yet, Prince Andrew's embarrassing ties to Jeffrey Epstein; she remained a pillar of strength and determination for over 70 years. In a world full of chaos consumed by rising interest rates, jostling markets, war, famine, ongoing supply chain issues and tumultuous hurricanes, it seems impossible to plan for the future when the near and present dangers keep staring us directly in the face. This is especially true at the checkout counter, where a constant reminder of higher prices is making it increasingly difficult to maintain what the British do so well, a stiff upper lip.

Despite a mid-summer rebound, Fed Chairman Powell made it abundantly clear at his press conference in Jackson Hole that he would pull out the "Full Monty" and do what it takes to combat inflation; even at the risk of driving the country into recession. Well, blimey, bring out the tea and biscuits as this may be a bumpy ride! September was just that as bond volatility surpassed that of equities as the Fed continued to fight the bloody, sticky wicket.

Here on the continent, many investors have never seen a rising rate environment, especially not the 25 million+ new brokerage accounts that opened during the pandemic. Mesmerized by meme stocks and the ease of making "free money" in a stock market that wouldn't seem to quit, "Robinhooders" thought they had liberated Sherwood Forest. But, alas, all fairy tales come to an end and now they are paying the price for "slow quitting" their day job as companies begin to restore the post-Covid performance review. This combined with a wave of recent layoff announcements from Amazon to Ford, will hopefully begin to push the unemployment number up to a more reasonable recession level that will appease the Fed.

The "King's" (Chairman Powell) Speech is working as higher borrowing costs weave their way through the system. Despite the recent availability of automobiles, people aren't buying at current interest rates. With mortgages rates at 7%, the housing market and new construction are cooling, US manufacturing growth is waning (ISM manufacturing PMI dropped to 50.9 from 52.8, its slowest rate in 2 ½ years) and job openings dropped by 1.1 million in August.

Lest people forget, higher rates are just one tool in the Fed's arsenal. At the same time the Fed (along with other Central Banks) is in the process of reducing its balance sheet, draining liquidity from the bond market and freeing itself from the role of buyer of last resort. This has caused a surge in volatility in the bond market as spreads have risen across the board sending the 10-year US Treasury to its highest rates since 2008 and the 2-year over 4.2%. Meanwhile, across the pond, the 30-Year Gilt hit its highest yield in 25 years and the pound fell to its lowest level against the dollar ($1 to £0.94) after Parliament announced tax cuts to help counteract higher energy prices for British subjects. Not exactly what Queen Elizabeth had in mind for a Silver Jubilee! This in turn forced the hand of the BOE to jump in and reverse action on quantitative tightening and begin repurchasing government bonds. England's government and Central Bank appear to be playing teeter-totter on a very expensive playground.

It's not just Britain feeling the burn from the US dollar, which rose another 7.2% for the quarter. The strong dollar is adding fuel to the fire on what is already a delicate global currency conflagration. Both Europe and China are already suffering from higher prices; however, a higher dollar has exacerbated the problem by making imports and oil more expensive to buy. Just in time for OPEC+ to reduce production by 2 million barrels a day. It's enough to make your fish and chips go soggy.

We saw Q3 end with a crash of mass bear market selling into the final days of September, only to turn bad news into good as October started anew with a rally off negative data and a dovish move from a member of her Majesty's Commonwealth, Australia, which raised rates less than anticipated. Being a commodity rich country, perhaps Aussieland can foresee a break in inflation and/or a tick down in demand. Just as the sun never used to set on the British Empire, our global economy is intertwined and every decision casts a ripple to another shoreline. It is too early to know the outcome of a synchronized worldwide tightening, but little by little equilibrium will be restored. Until then, pour yourself a gin and tonic.

Closing Thoughts

Putting 70 years into perspective seems daunting, but in reality this is about the length of an individual's investment lifetime. Unless you were an enterprising lemonade salesman, most people begin building wealth in their early 20's through their company's retirement plan. As they become more successful, they start building that nest egg, rainy day fund, college and wedding funds, and dreaming of the day they can start the vacation fund and eventually retire. While Queen Elizabeth vowed to dedicate her whole life to her subjects and the crown, at Ulrich, we dedicate our lives to our clients' financial success. We understand during challenging times like these it is hard to stick to a strategic plan but just remember, in the words of Winston Churchill, "if you are going through hell, keep going."

Regards,

John P. Ulrich, CFP®
President

Whitney E. Solcher, CFA®
Chief Investment Officer

Equity Markets

The S&P 500 Index sank 4.9% in 3Q and is down 23.9% year-to-date (YTD). Returns were quite mixed across sectors with Energy (+2.3%) and Consumer Discretionary (+4.4%) posting positive results and Communication Services (-12.7%) and Real Estate (-11.0%) delivering the lowest returns. Somewhat counterintuitively, value underperformed growth (Russell 1000 Value: -5.6%; Russell 1000 Growth: -3.6%) but value remains ahead on a YTD basis (Russell 1000 Value: -17.8%; Russell 1000 Growth: -30.7%).

Global ex-U.S. markets fared worse, driven mostly by U.S. dollar strength. The MSCI ACWI ex USA Index fell 9.9% (Local: -4.9%), bringing its YTD loss to 26.5% (Local: -16.2%). The U.S. dollar continued to strengthen, benefiting from its "safe haven" status as well as attractive interest rates relative to other developed markets. The yen and euro lost 6% versus the greenback and the British pound fell 8%. Across developed market countries, losses were broad-based with several posting double-digit declines. As in the U.S., value (MSCI ACWI ex USA Value: -10.4%) underperformed growth (MSCI ACWI ex USA Growth: -9.4%). Unlike the U.S., no sectors delivered a positive return in 3Q.

Emerging markets (MSCI Emerging Markets: -11.6%; Local: -8.2%) underperformed developed markets for the quarter but returns were mixed across countries. China (MSCI China: -22.5%) was one of the worst performers while several countries posted positive returns; two of the best were India (+6.5%) and Brazil (+8.5%). Returns were also mixed across regions: Latin America (+3.6%), Emerging Europe (-12.4%), and Emerging Asia (-14.0%).

Fixed Income Markets

The 10-year U.S. Treasury briefly touched an intra-quarter high of 4.0% in late September, the highest since 2008, before closing the quarter at 3.83%. At quarter-end, the yield curve was inverted by about 40 bps with the 10-year at 3.8% and the 2-year at 4.2%. The Bloomberg US Aggregate Bond Index fell 4.8% in 3Q, bringing its YTD return to a startling -14.6%, a historical worst for the first nine months of a year. Notably, the sharp sell-off has eroded gains over the past 10 years; the Aggregate's 10-year annualized gain is now a muted 0.9%. Mortgages and corporates underperformed U.S. Treasuries, with mortgage-backed securities doing especially poorly, underperforming like-duration U.S. Treasuries by 160 bps on poor technicals and rising rates. The yield-to-worst of the Aggregate Index climbed to 4.75%, up sharply from 1.75% at the beginning of the year. TIPS (Bloomberg TIPS: -5.1%; -13.6% YTD) were not immune from the sell-off. High yield corporates (Bloomberg High Yield: -0.6%) fared better, but the Index is down a similar 14.7% YTD. The yield-to-worst was 9.7% as of quarter-end.

The Bloomberg Municipal Bond Index fell 3.5% for the quarter and is down 12.1% YTD. The shorter duration 1-10 Year Blend fell 2.3% for the quarter and 7.7% YTD. The ratio of AAA Municipal yields to the 10-year U.S. Treasury fell to 86%, down from 92% at the end of 2Q. The 4.0% yield-to-worst of the Bloomberg Municipal Bond Index is the highest since 2009.

Interest rates also rose overseas and the U.S. dollar continued to strengthen, hurting unhedged fixed income returns. The Bloomberg Global Aggregate ex USD fell 8.8% (hedged: -2.2%). The YTD differential for hedged and unhedged investors is nearly 14 percentage points (unhedged: -23.9%; hedged: -9.9%). Losses were broad-based but the U.K. fell the most sharply; 13.2% in local currency terms and 20.2% in US$ in response to announced plans for massive fiscal stimulus in the form of unfunded tax cuts. Emerging markets performed similarly, with the JPM EMBI Global Diversified down 4.6% and the local currency JPM GBI-EM Global Diversified off 4.7%.

Real Assets

Real assets as a group posted negative returns in 3Q. Commodity prices, especially metals and oil, declined on concerns over slowing global growth; the S&P GSCI Index fell 10.3%. WTI Crude closed the quarter at $79/barrel, down more than 20% from 2Q. Gold (S&P Gold Spot Price Index: -7.5%), listed infrastructure (DJB Global Infrastructure: -1.1%), REITs (MSCI US REIT: -10.0%), and TIPS (Bloomberg TIPS: -5.1%) declined.

Returns for Various Periods - September 30, 2022

	Last Quarter	Year to Date	Last Year	**Last 3 Years**	Last 5 Years	Last 10 Years	**Last 15 Years**
MSCI:ACWI	(6.82)	(25.63)	(20.66)	**3.75**	4.44	7.28	**4.07**
Russell:3000 Index	(4.46)	(24.62)	(17.63)	**7.70**	8.62	11.39	**7.92**
Russell:3000 Growth Index	(3.37)	(30.57)	(23.01)	**10.16**	11.57	13.36	**9.87**
Russell:3000 Value Index	(5.56)	(17.97)	(11.79)	**4.37**	5.11	9.08	**5.71**
MegaCap							
Russell:Top 50	(5.53)	(26.41)	(17.48)	**10.28**	10.92	11.96	**8.19**
Russell:Top 200	(5.02)	(24.71)	(16.43)	**8.96**	9.95	12.09	**8.21**
Russell:Top 200 Growth	(4.24)	(30.53)	(21.01)	**12.23**	13.29	14.49	**10.74**
Russell:Top 200 Value	(5.97)	(16.33)	(10.18)	**4.26**	5.54	9.07	**5.28**
Large Cap							
S&P:500	(4.88)	(23.87)	(15.47)	**8.16**	9.24	11.70	**8.03**
Russell:1000 Index	(4.61)	(24.59)	(17.22)	**7.95**	9.00	11.60	**8.03**
Russell:1000 Growth	(3.60)	(30.66)	(22.59)	**10.67**	12.17	13.70	**10.10**
Russell:1000 Value	(5.62)	(17.75)	(11.36)	**4.36**	5.29	9.17	**5.71**
MidCap							
S&P:400 Mid Cap	(2.46)	(21.52)	(15.25)	**6.01**	5.82	10.04	**7.93**
Russell:Midcap Index	(3.44)	(24.27)	(19.39)	**5.19**	6.48	10.30	**7.55**
Russell:Midcap Growth	(0.65)	(31.45)	(29.50)	**4.26**	7.62	10.85	**8.01**
Russell:Midcap Value	(4.93)	(20.36)	(13.56)	**4.50**	4.76	9.44	**6.81**
Small Cap							
S&P:600 Small Cap	(5.20)	(23.16)	(18.83)	**5.48**	4.84	10.09	**7.77**
Russell:2000 Index	(2.19)	(25.10)	(23.50)	**4.29**	3.55	8.55	**6.40**
Russell:2000 Growth	0.24	(29.28)	(29.27)	**2.94**	3.60	8.81	**6.82**
Russell:2000 Value	(4.61)	(21.12)	(17.69)	**4.72**	2.87	7.94	**5.70**
Russell:Microcap	(0.48)	(25.48)	(27.46)	**6.86**	3.11	8.37	**5.46**
Non-US Equity							
MSCI:ACWI xUS	(9.91)	(26.50)	(25.17)	**(1.52)**	(0.81)	3.01	**0.57**
MSCI:EAFE	(9.36)	(27.09)	(25.13)	**(1.83)**	(0.84)	3.67	**0.61**
MSCI:EAFE Growth	(8.50)	(33.02)	(30.28)	**(1.49)**	0.67	4.70	**1.64**
MSCI:EAFE Value	(10.21)	(21.08)	(20.16)	**(2.79)**	(2.74)	2.39	**(0.60)**
MSCI:EAFE Small	(9.83)	(32.11)	(32.06)	**(2.16)**	(1.79)	5.28	**2.45**
MSCI:EM	(11.57)	(27.16)	(28.11)	**(2.07)**	(1.80)	1.05	**0.27**
Fixed Income							
Blmbg:Aggregate	(4.75)	(14.61)	(14.60)	**(3.26)**	(0.27)	0.89	**2.74**
Blmbg:TIPS	(5.14)	(13.61)	(11.57)	**0.79**	1.95	0.98	**3.25**
Blmbg:Long Gov/Credit	(9.03)	(28.94)	(27.41)	**(7.35)**	(1.17)	1.35	**4.44**
Blmbg:Long Credit A	(9.12)	(29.17)	(28.19)	**(7.44)**	(1.63)	1.47	**4.14**
Blmbg:HY Corp Cash Pay	(0.64)	(14.75)	(14.11)	**(0.44)**	1.58	3.94	**5.72**
Blmbg:Muni 1-10 Yr	(2.30)	(7.72)	(7.55)	**(0.83)**	0.71	1.41	**2.74**
Blmbg:Glb Agg xUSD	(8.85)	(23.88)	(24.77)	**(7.78)**	(4.03)	(2.39)	**0.32**
Blmbg:Glb Agg xUSD Hdg	(2.21)	(9.93)	(9.86)	**(2.99)**	0.71	2.21	**3.08**
JPM:EMBI Plus	(5.52)	(30.70)	(30.93)	**(9.87)**	(5.52)	(0.86)	**2.72**
Other Assets							
Blmbg:Commodity TR Idx	(4.11)	13.57	11.80	**13.45**	6.96	(2.14)	**(2.44)**
S&P GSCI	(10.31)	21.80	23.64	**12.19**	7.75	(3.95)	**(4.45)**
S&P:Gold Spot Price Ix	(7.49)	(8.56)	(4.84)	**4.32**	5.41	(0.59)	**5.49**
FTSE:NAREIT Equity Index	(9.94)	(28.13)	(16.41)	**(2.05)**	2.93	6.26	**4.86**
Alerian:MLP Index	8.05	18.90	19.56	**4.46**	1.90	0.66	**4.94**

Capital Markets Review & Outlook

3rd Quarter, 2022

ULRICH
Investment Consultants

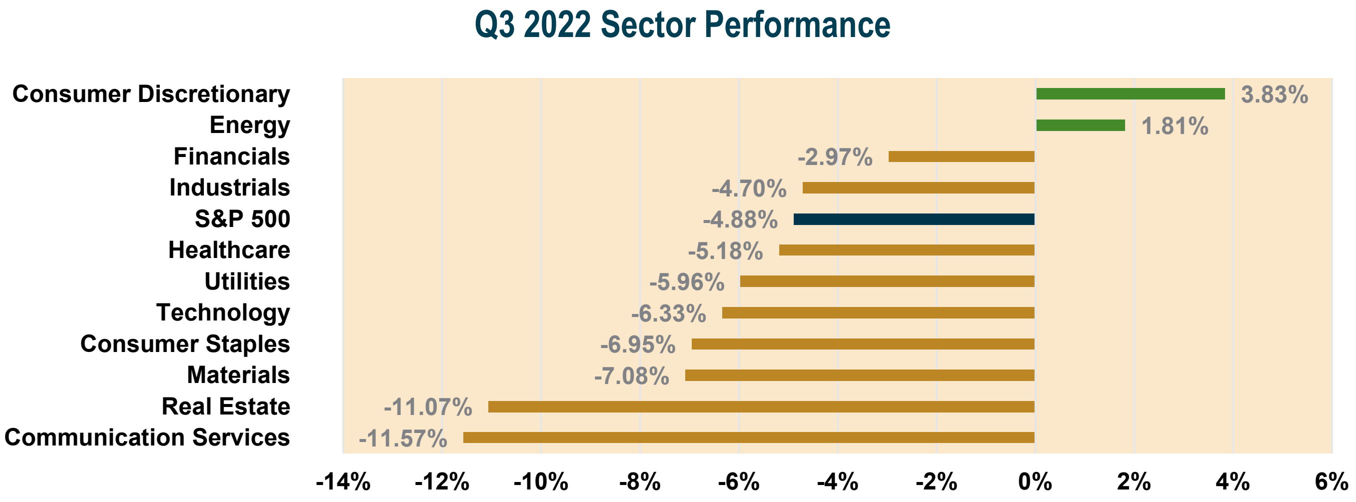
MAJOR MARKET INDICES (AS OF 9/30/2022)

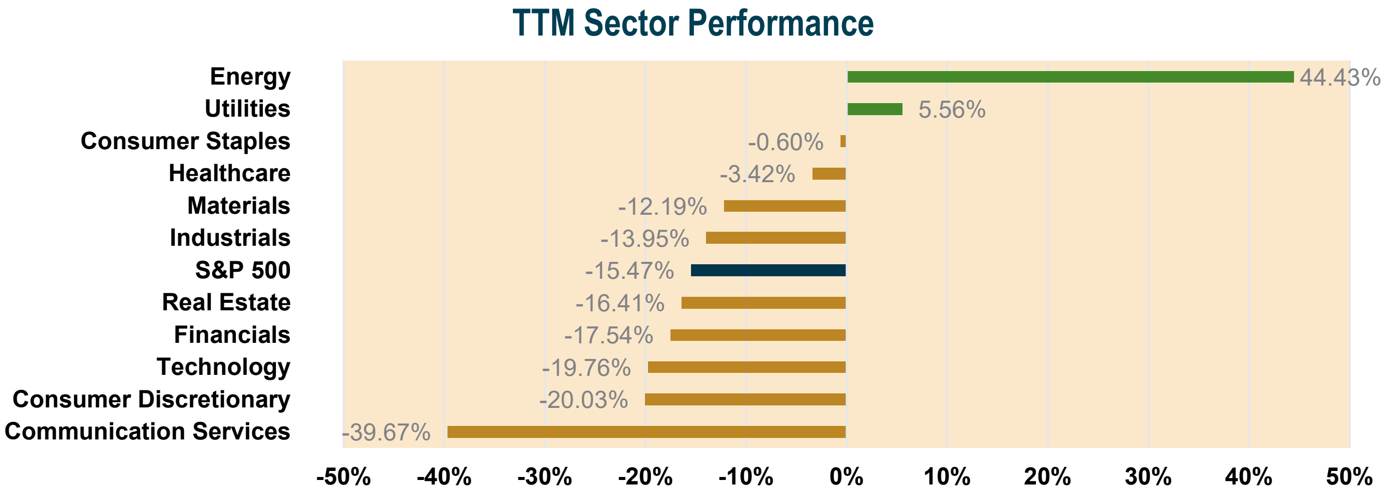
Domestic Equity	2022 Q3	YTD	1 Year	Annualized 5 Year	10 Year	P/E Ratio TTM
S&P 500	-4.9%	-23.9%	-15.5%	9.2%	11.7%	17.98
Russell 3000	-4.5%	-24.6%	-17.6%	8.6%	11.4%	16.96
Russell 1000 Value	-5.6%	-17.8%	-11.4%	5.3%	9.2%	13.75
Russell 1000 Growth	-3.6%	-30.7%	-22.6%	12.2%	13.7%	23.78
Russell 1000	-4.6%	-24.6%	-17.2%	9.0%	11.6%	17.49
Russell 2000	-2.2%	-25.1%	-23.5%	3.6%	8.6%	10.42
Russell 2500	-2.8%	-24.0%	-21.1%	5.5%	9.6%	11.33
International Equity	**2022 Q3**	**YTD**	**1 Year**	**Annualized 5 Year**	**10 Year**	**P/E Ratio TTM**
MSCI ACWI Ex US	-9.8%	-26.2%	-24.8%	-0.3%	3.5%	11.06
MSCI EAFE	-9.3%	-26.8%	-24.7%	-0.4%	4.2%	11.53
Emerging Markets	-11.4%	-26.9%	-27.8%	-1.4%	1.4%	9.97
Fixed Income	**2022 Q3**	**YTD**	**1 Year**	**Annualized 5 Year**	**10 Year**	**Yield**
Bloomberg US Aggregate	-4.8%	-14.6%	-14.6%	-0.3%	0.9%	4.8%
Bloomberg US Universal	-4.5%	-14.9%	-14.9%	-0.2%	1.2%	5.2%
Other	**2022 Q3**	**YTD**	**1 Year**	**Annualized 5 Year**	**10 Year**	**Value**
S&P/LSTA Leveraged Loan	1.4%	-3.3%	-2.5%	3.0%	3.5%	-
FTSE Nareit Equity REITs	-9.94%	-28.1%	-16.4%	2.9%	6.3%	-
US Dollar	7.1%	16.8%	19.0%	3.8%	3.4%	$112.12
WTI	-26.65%	6.2%	4.8%	9.5%	-1.4%	$79.53
Gold	-8.15%	-9.22%	-5.64%	5.35%	-0.66%	$1,661

- Markets had one of their worst quarters of all time. Growth started to rebound only to sell off late in the quarter, but still outperformed Value. SMID caps managed to outperform large cap stocks as the strong dollar continued to hurt multinationals.
- International stocks also felt pain from the strength of the US dollar, which increased by 7.2% during the quarter.
- The “Balanced Bear” continued in fixed income, bringing 5-year returns into negative territory.
- Energy prices fell dramatically throughout the quarter providing some relief at the pump. REITs were hurt by rising rates, making their yields less attractive.
- While typically a safe haven, gold continued to disappoint.

Source: Koyfin, Morningstar Direct, Callan

SECTOR PERFORMANCE



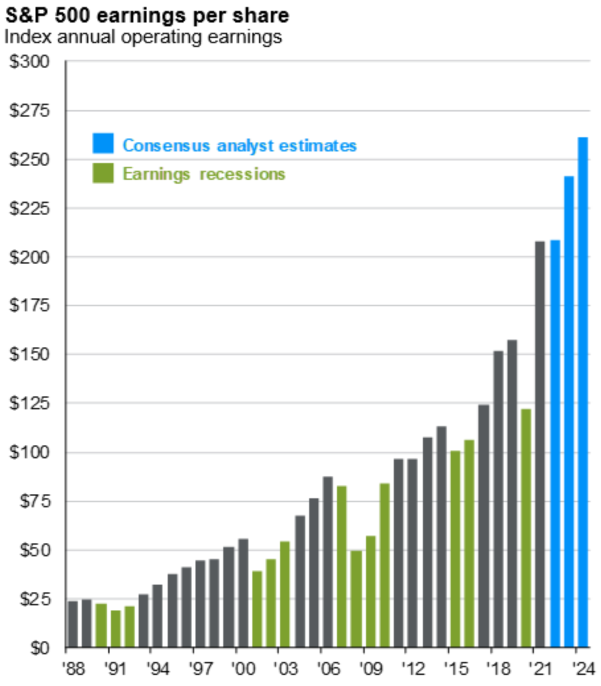


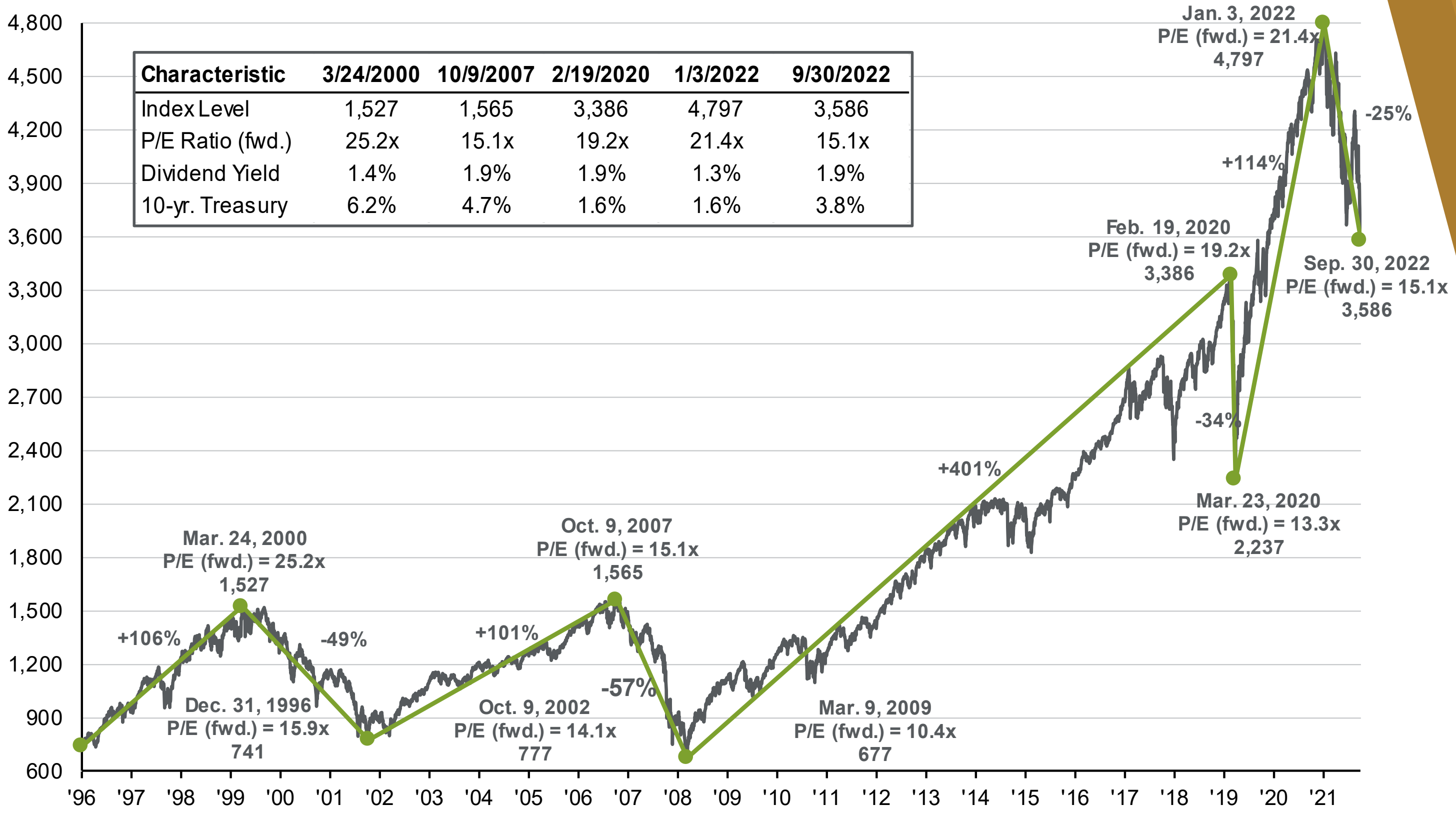
- Consumers continued to cut back on their subscriptions with communication services falling the most for the quarter.
- Consumer discretionary was aided by a rebound in Amazon but was still one of the worst performing sectors over the trailing 12 months as consumers pulled back on spending.
- Despite lower oil prices, energy companies are still performing well, supported by strong cash flow.

Source: Morningstar Direct

MARKET VALUATIONS

- Valuations have contracted significantly as interest rates have risen; however, we still sit at levels seen prior to the great financial crisis.
- While earnings estimates are flat for 2022, future estimates still remain elevated and could lead to further multiple contraction.





Characteristic	3/24/2000	10/9/2007	2/19/2020	1/3/2022	9/30/2022
Index Level	1,527	1,565	3,386	4,797	3,586
P/E Ratio (fwd.)	25.2x	15.1x	19.2x	21.4x	15.1x
Dividend Yield	1.4%	1.9%	1.9%	1.3%	1.9%
10-yr. Treasury	6.2%	4.7%	1.6%	1.6%	3.8%

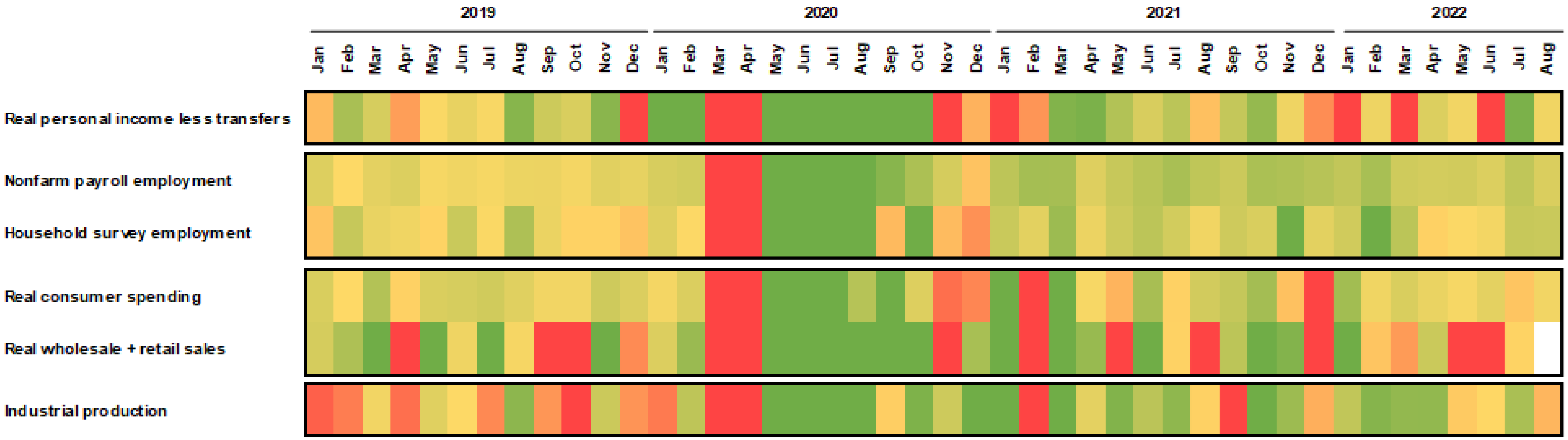
Source: JP Morgan

RECESSION DETERMINANTS

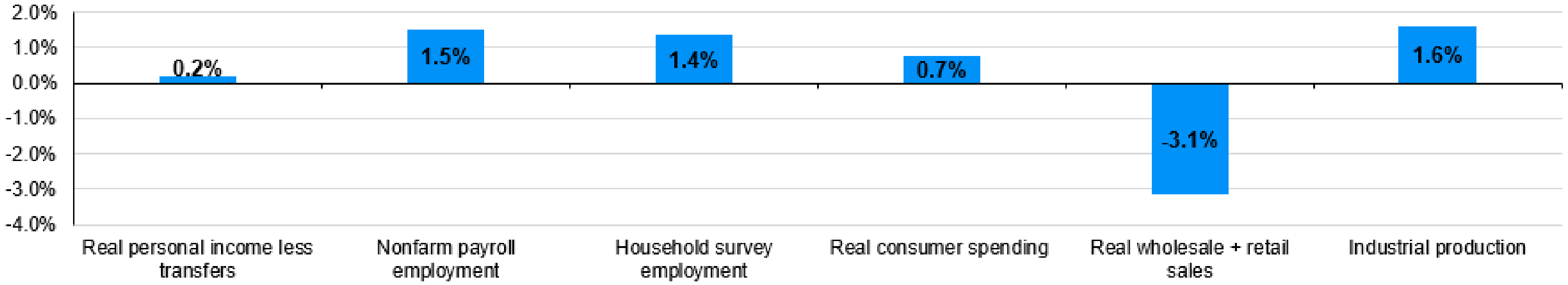
- Determinants of recession are pointing towards a 4th quarter 2022 or early 2023 entry, primarily driven by a slowdown in the consumer and rising inventories.
- Unemployment is a lagged effect, but wages are showing signs of moderation and this could be the next shoe to drop; however, we will need to turn more negative to confirm recession.

Variables used by the NBER in making recession determination*

% change month-over-month



% change, last six months



*Green signals expansion, yellow/orange slowing, and red signals negative growth

Source: JP Morgan

LABOR MARKETS

- The labor market is still very tight but is showing signs of cooling as job openings fell by 1.1 million in August and wage increases have moderated. Despite recent layoff announcements (primarily from tech companies) many businesses are holding onto labor for fear of difficulty replacing, leading to a population of "slow quitters".
- In 10 major cities, office use was 47.5% of early 2020 levels for workers in the office. Tuesday and Wednesday office use was ~55%. Only 5% out of 187 companies surveyed, said that they expect workers in the office five days a week. US office vacancy stands at 12.4%, the highest since the pandemic and up from 9.6% in Q1 2020.

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Technology

Apple Lays Off Recruiters as Part of Its Slowdown in Hiring

- About 100 recruiter contractors were let go in past week
- Apple relies on contractors for some recruiting and operations

Microsoft cuts small percentage of employees as new fiscal year begins

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KEY POINTS
- The cuts at Microsoft amount to less than 1% of the total headcount.

ice group took a more cautious approach to hiring in May.

TV
The Exchange WATCH LIVE
UP NEXT | Power Lunch 02:00 pm ET Listen

Wayfair is cutting 5% of its global workforce

By Jordan Valinsky, CNN Business

Updated 10:49 AM ET, Fri August 19, 2022

FORD · Updated on August 22, 2022 12:31pm EDT

Ford laying off 3,000 employees to cut costs, pay for EV transition

Reductions come as automaker is looking to lead a new era of connected, electric vehicles

Manfredi | FOXBusiness |

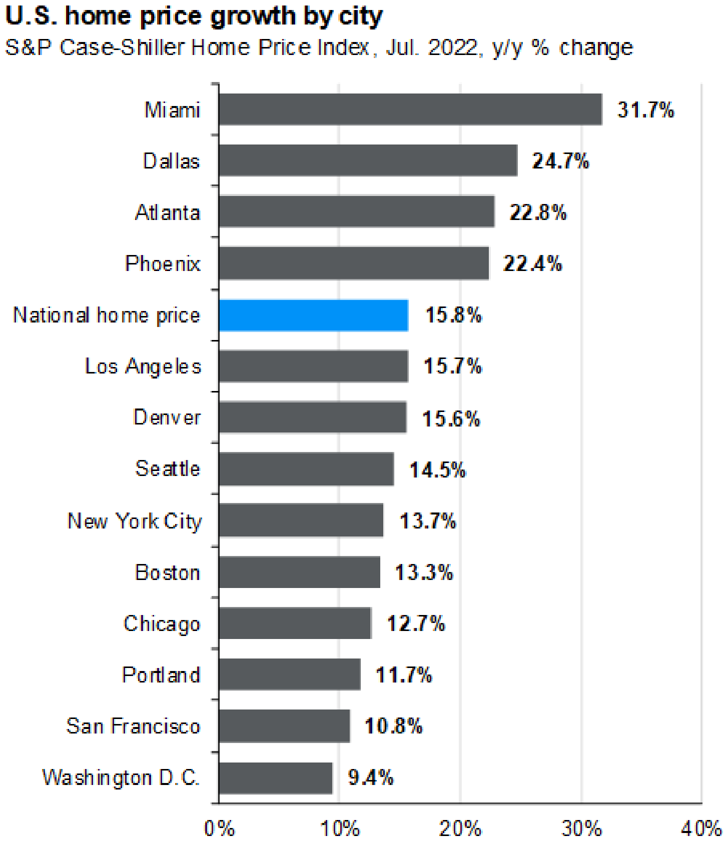
Markets
Quotes displayed in real-time

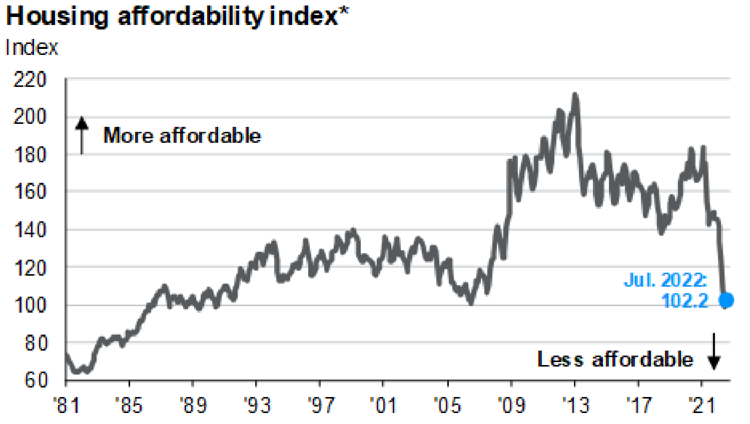
Walmart layoffs 2022: Retailer cuts employees, lowers profit forecasts amid inflation woes

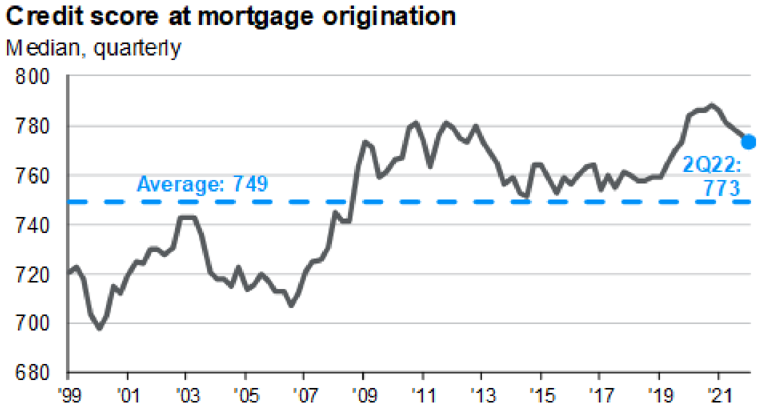
Source: Wall Street Journal, Bloomberg, Fox Business, and CNN Business

HOUSING & AFFORDABILITY

- High prices and rising rates have pushed affordability near its lowest level in decades. Payments on a median-priced US home require 36% of household income, the largest percentage since 1985. In Sep. 2021, it was 22%.
- Mortgage rates have gone from 3.11% in September 2021 to 6.7% in September 2022. People who are locked into low rates do not want to sell, resulting in lower inventory.
- Existing home sales fell for a seventh consecutive month in August (the longest decline since 2007), down ~20% year-over-year (YoY). The 30-year mortgage rate is up to 6.29% (a year ago, it was 2.88%).
- The median home sales price was $389,500 in August, up 7.7% YoY but down from $413,800 earlier in the year.
- The new home market (~10% of home sales) is also weak. Almost half of builders cut prices on new homes in August, as they try to deal with too much inventory.
- Some homeowners don't want to sell into a weak market, which is another factor driving house inventories down. The number of home listings that were delisted without going under contract rose 58% YoY in August.
- Multi-family housing is still going strong.







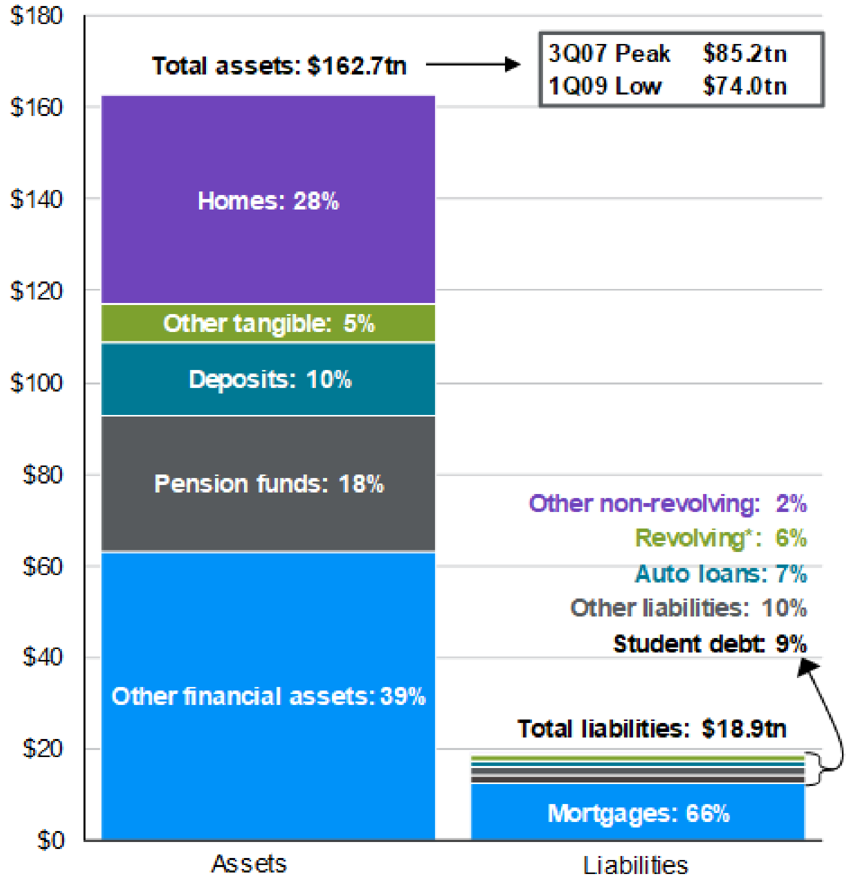
Source: JP Morgan

CONSUMER FINANCES

- High inflation and higher rates have pinched consumer pocketbooks and led to an increase in borrowing as savings from fiscal stimulus during the pandemic have dried up.
- Falling global demand, aided by China still being under lockdown, could lead to a more synchronized worldwide response to tightening.

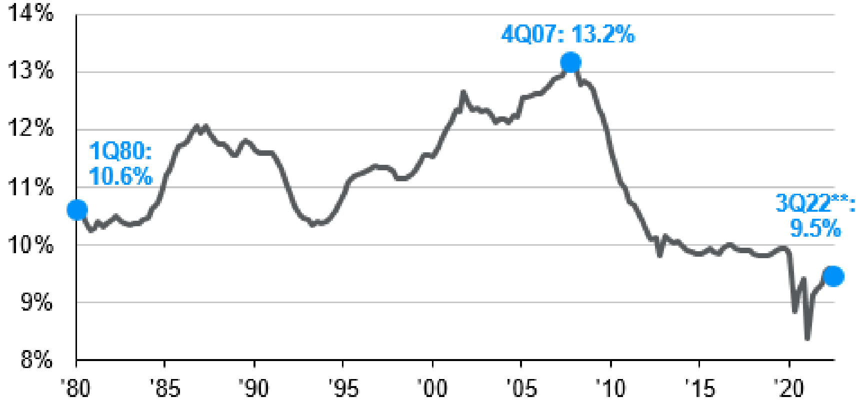
Consumer balance sheet

2Q22, trillions of dollars outstanding, not seasonally adjusted



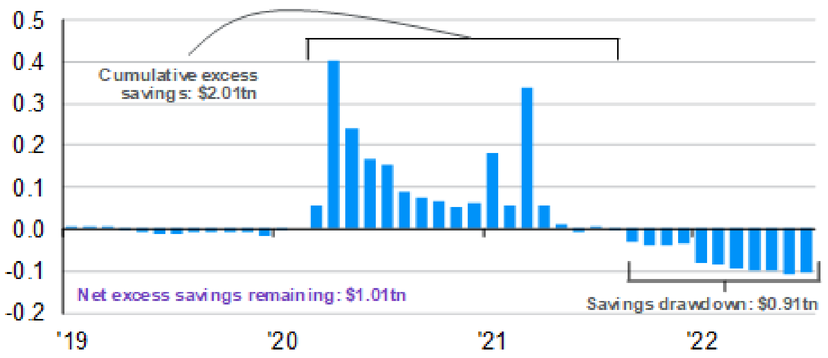
Household debt service ratio

Debt payments as % of disposable personal income, SA



Excess personal savings relative to pre-pandemic trend

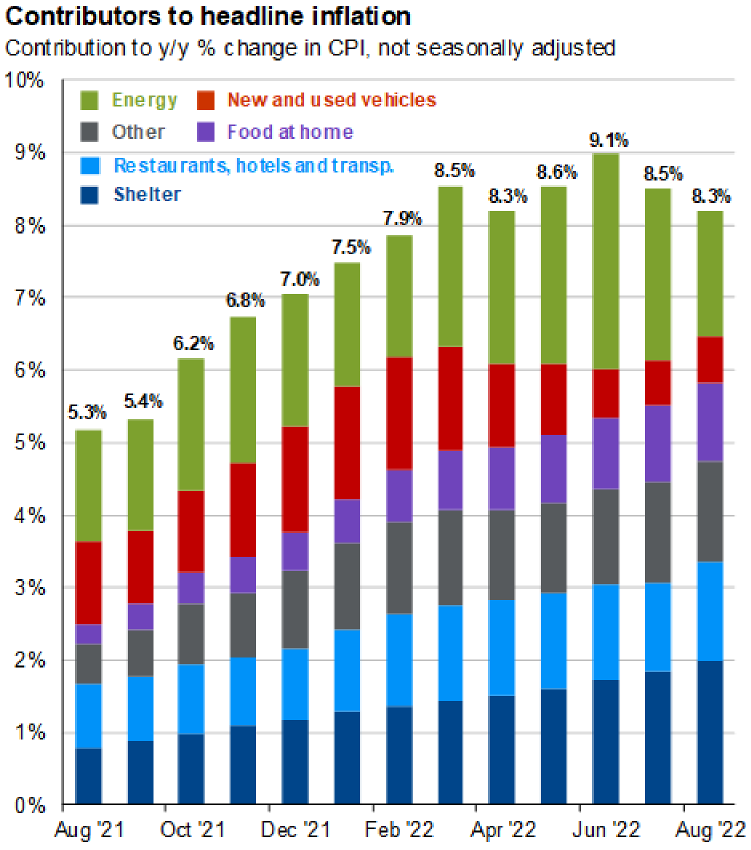
Disposable personal income less consumer outlays, minus pre-pandemic trend growth***, $ trillions, monthly

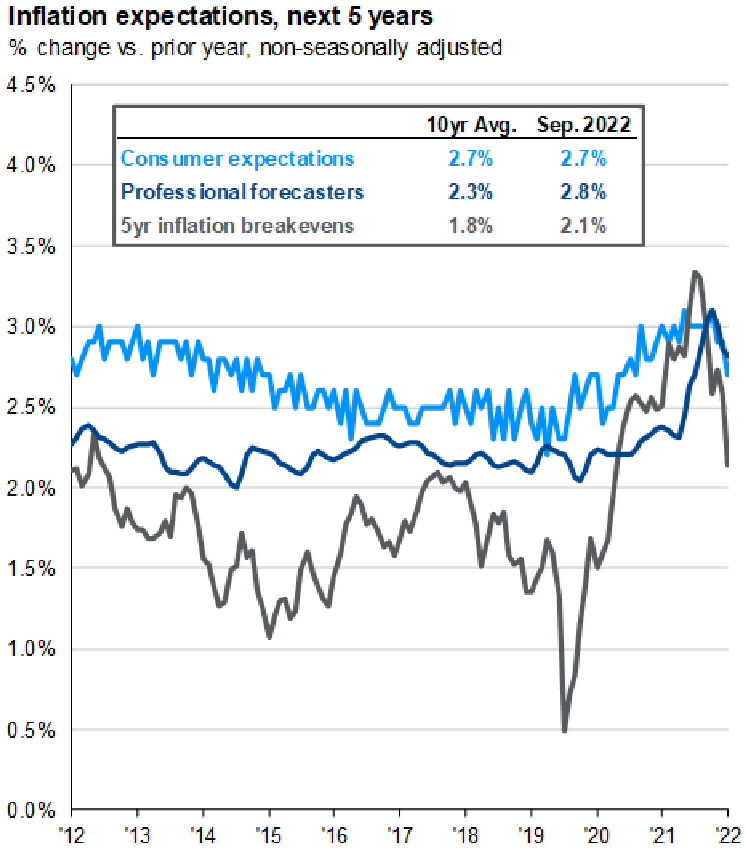


Source: JP Morgan

INFLATION DRIVERS AND EXPECTATIONS

- It appears that we've turned a corner on inflation. The dollar is up while energy, commodities, used cars, hotels and airlines are all coming down (transitory factors).
- Forward looking inflation expectations are in line with normal averages and consumers aren't hoarding on demand.
- Electricity, however, was up 15.8% YoY in August; the largest increase since 1981.
- Expectations are that this will be the highest winter heating season in a decade – up 35% to an average of $1,202. One in six American families are already behind on utility bills.

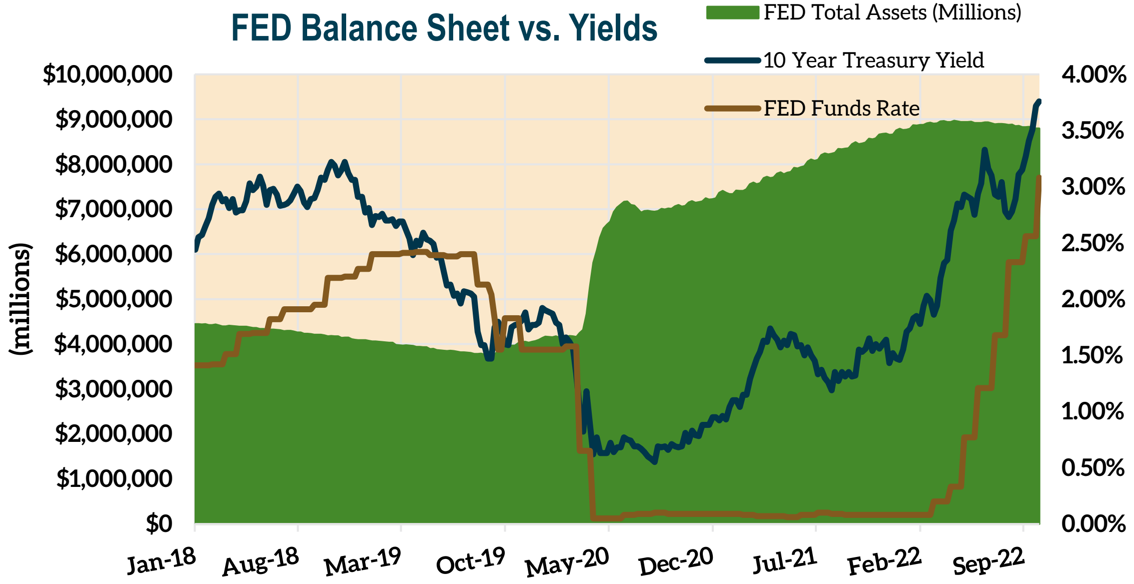


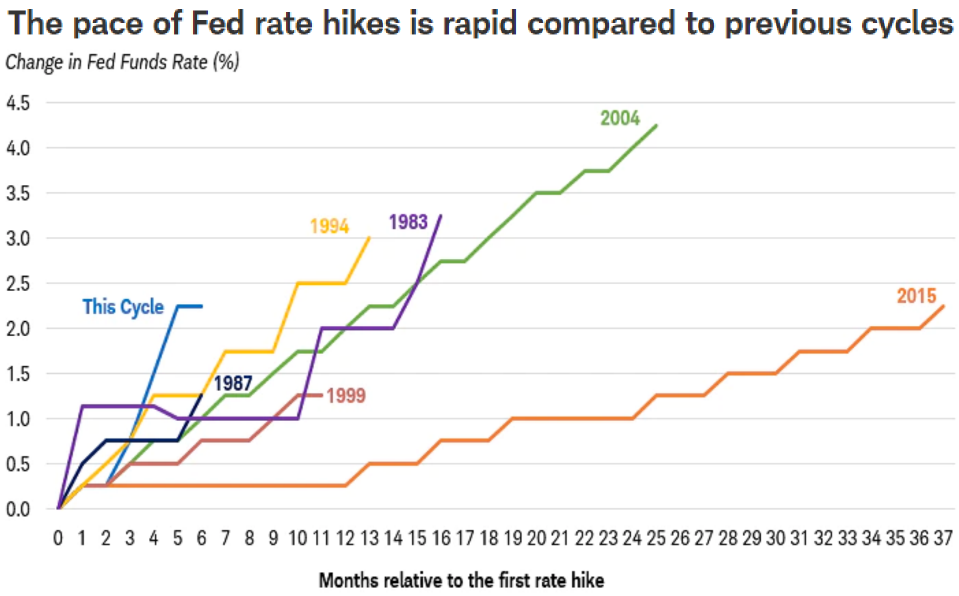


Source: JP Morgan

QUANTITATIVE TIGHTENING

- In addition to the Federal Reserve's 75 bps point hike in September, they are also draining the balance sheet by stopping bond purchases and letting bonds mature; draining liquidity from the bond market and leading to increased volatility.
- The pace of these rate hikes has also been much faster than previous cycles.
- In addition, roughly 90 central banks around the world have raised rates in 2022 and more than 40 have hiked them by at least 75 bps, creating a globally synchronized tightening.

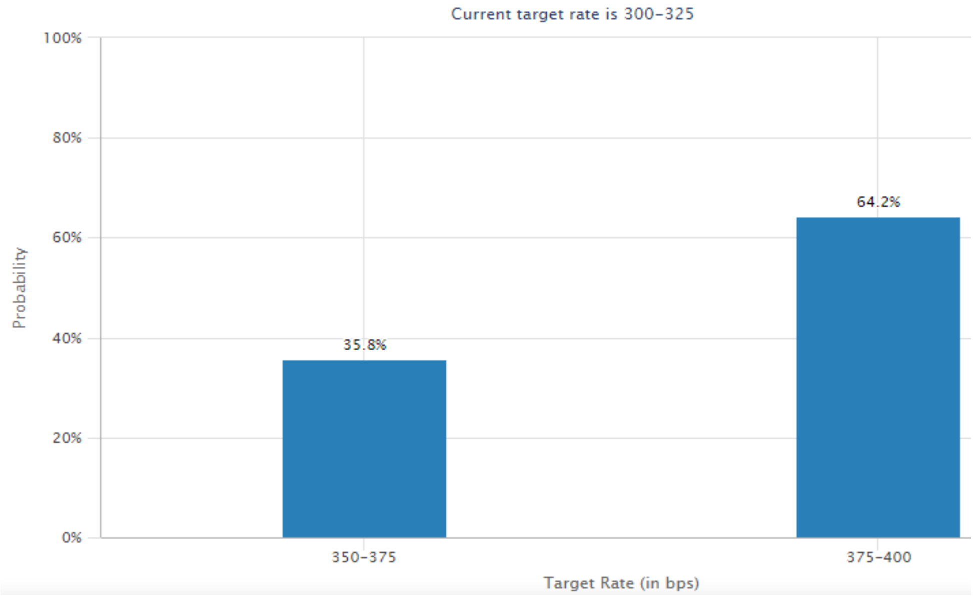




Source: Charles Schwab, Federal Reserve Economic Data, U.S Department of the Treasury

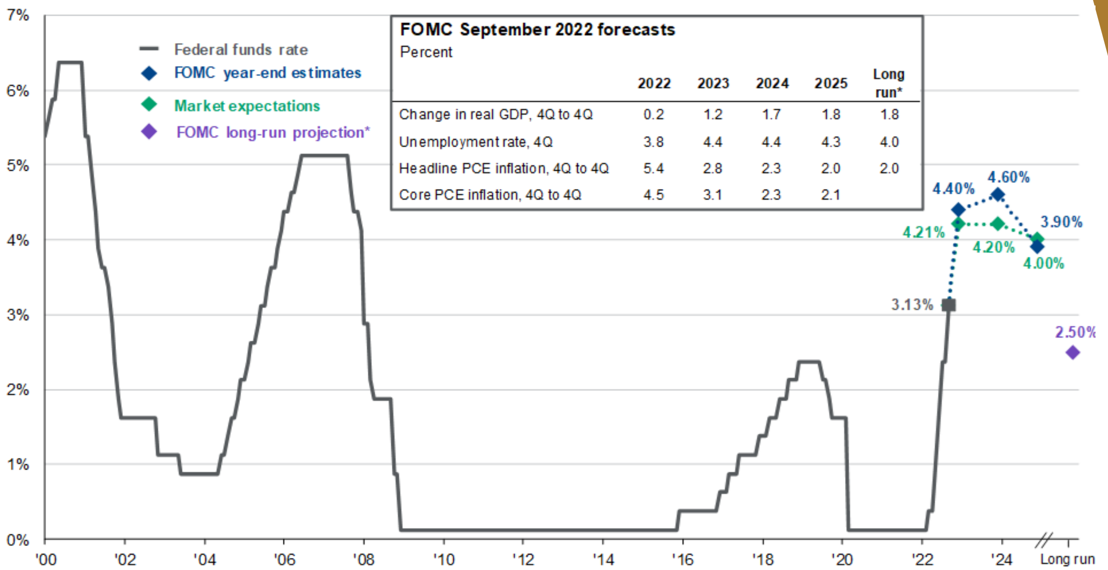
THE FUTURE OF INTEREST RATES

TARGET RATE PROBABILITIES FOR 2 NOV 2022 FED MEETING



- Currently, the Fed dot plot is estimating higher rates than the market is anticipating.
- They have been successful in talking the market into where they want it to go.
- Australia turned heads when it raised rates less than expected, sending global stocks soaring.

- Still market expectations are leaning towards a 75 bps point hike in November - over a 50 bps hike.



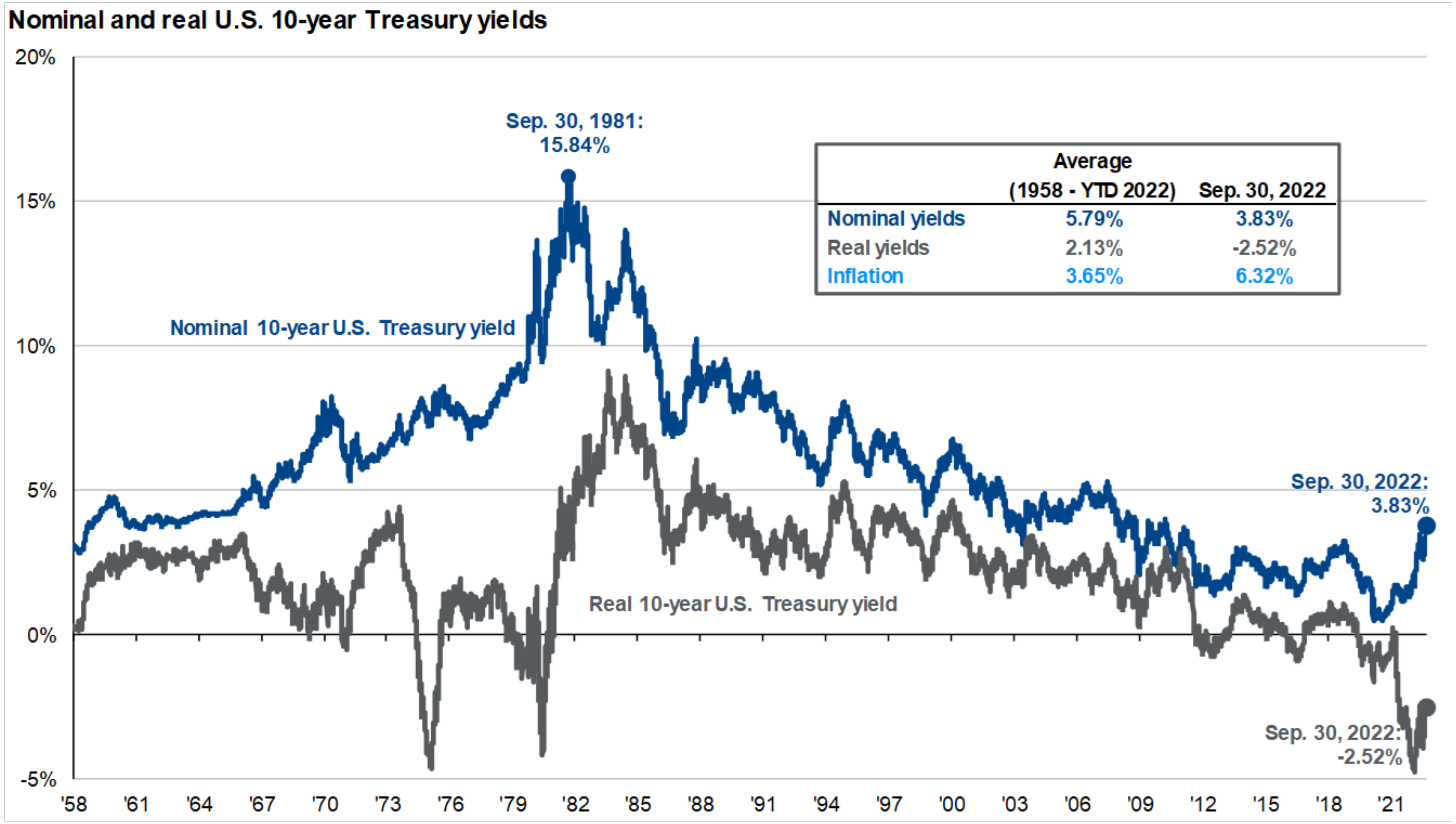
FOMC September 2022 forecasts
Percent

	2022	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.2	1.2	1.7	1.8	1.8
Unemployment rate, 4Q	3.8	4.4	4.4	4.3	4.0
Headline PCE inflation, 4Q to 4Q	5.4	2.8	2.3	2.0	2.0
Core PCE inflation, 4Q to 4Q	4.5	3.1	2.3	2.1	

Source: CME Group and JP Morgan

INTEREST RATES AND INFLATION

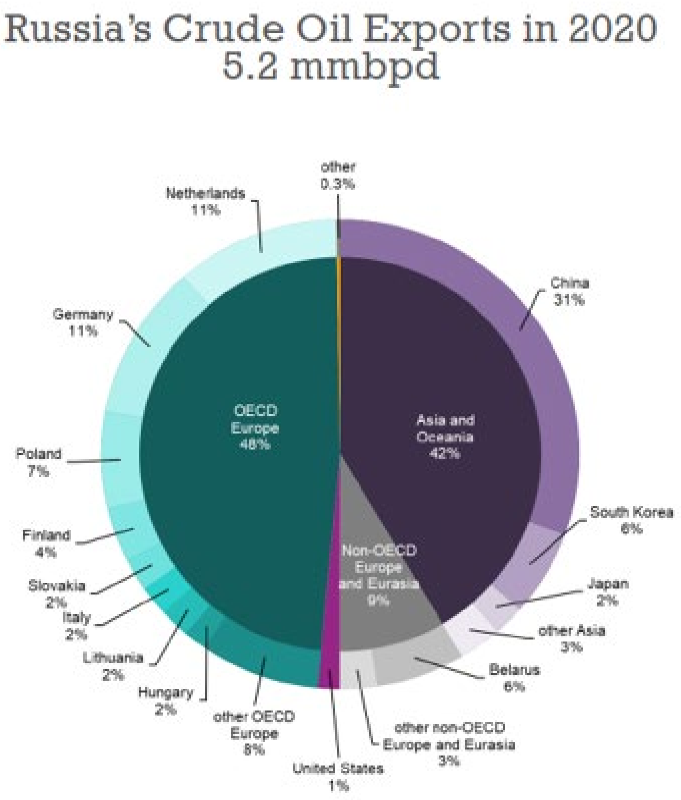
- Despite an increase in rates, the real yield is still negative given current inflation rates.

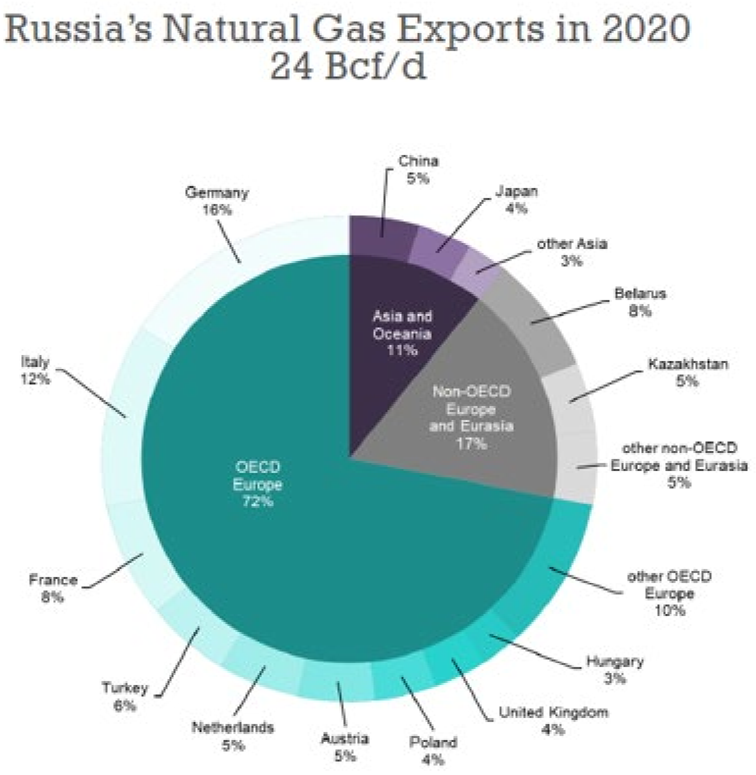


Source: JP Morgan

ENERGY SUPPLY AND DEMAND

- China stands to gain access to a significant amount of natural gas from Russia. Right now, however, China is a coal and oil-powered economy and the transition will be long and expensive. Russia's invasion has pushed coal and oil prices higher, hurting China. Natural gas only accounts for 8.4% of its energy (vs. the U.S. and Europe at 30% and 25%, respectively) while coal accounts for 57%. The price of coal has doubled since 2019. Even discounted Russian oil is 40% higher than 2019.





Europe imports ~2.5 mmbpd of crude oil, ~1.5 mmbpd of NGLs and refined products, and 17.7 Bcf/d of natural gas from Russia. Thus, the reluctance to ban Russian imports.

Source: Salient

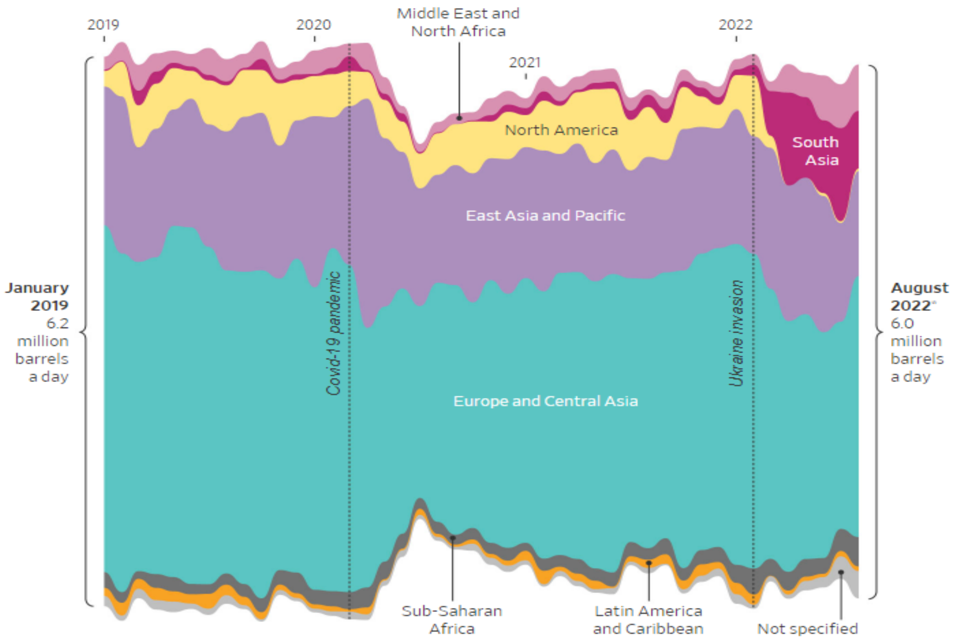
RUSSIA CUTS SUPPLY COMPLETELY

- Russia halted all flows through Nordstream 1 pipeline with no update on when it will start up again; resulting in a 30% jump in European natural gas prices.
- England announced tax cuts to help combat increased electricity prices for its citizens.
- Russia continues to supply as much oil to the world as it did before the invasion of Ukraine, exporting 7.4 million barrels of oil a day in July, which is down only 600k barrels since the start of the year.
- Despite tight global inventories and the release of roughly 900k barrels a day from the US SPRs, OPEC+ met in early October and announced they would be cutting supply by 2 million barrels per day.
- Investment in renewable energy is becoming more important as energy becomes a national security issue.

The Flow of Russian Oil

Although many European countries and the U.S. have reduced their imports of Russian oil, countries in Asia and the Middle East are buying more, which has helped Russia maintain its oil export levels.

Russian shipments of crude oil and products



Change in production and consumption of liquid fuels

Production, consumption and inventories, millions of barrels per day

Production	2019	2020	2021	2022*	2023*	Growth since '19
U.S.	19.5	18.6	19.0	20.2	21.4	9.7%
OPEC	34.6	30.7	31.7	34.1	34.5	-0.3%
Russia	11.5	10.5	10.8	10.9	9.3	-18.7%
Global	**100.3**	**93.9**	**95.7**	**100.1**	**101.3**	**1.0%**
Consumption						
U.S.	20.5	18.2	19.9	20.4	20.8	1.0%
China	14.0	14.4	15.3	15.3	16.0	13.9%
Global	**100.7**	**91.8**	**97.4**	**99.5**	**101.5**	**0.8%**
Inventory Change	-0.4	2.1	-1.7	0.6	-0.2	

Source: JP Morgan and Salient

USD CURRENCY DOMINANCE?

- According to the World Bank, we are experiencing one of the most synchronized bouts of monetary and fiscal tightening in the past 50 years. Approximately 90 central banks have raised rates this year and half of them have increased rates by at least 75 bps in a single bound.
- These synchronous policies could be mutually compounding in their effects – tightening financial conditions and steepening the global growth slowdown more than envisioned.
- The British Pound hit an all-time low versus the USD ($1 to £0.94). Primary drivers of British Pound weakness include tax cuts to counteract rising fuel prices and other inflation, funded via borrowing and other fiscal stimulus.
- Resulting weakness may have additional inflationary pressures on international countries as imports are more costly.
- Until the start of Q4, the USD has maintained its relative strength to other foreign currencies due to hawkish monetary policy as well as USD treatment as the world's reserve currency and safe haven asset.
- The strength in the USD makes European manufacturing and travel much more attractive.

Global Yield Matrix

As of 10/7/2022

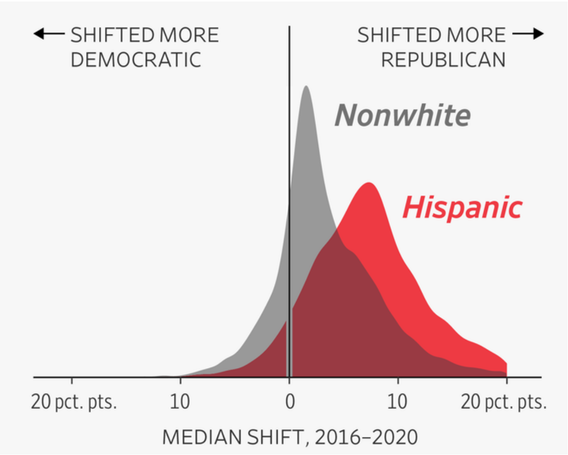
1D 5D MTD 1M QTD 3M **YTD** 1Y 3Y 5Y 10Y

	USD	EUR	GBP	JPY	CHF	AUD	NZD	CAD	SEK	NOK
USD		16.5%	21.9%	26.2%	8.9%	13.9%	21.8%	8.5%	23.8%	21.3%
EUR	-14.2%		4.6%	8.3%	-6.5%	-2.3%	4.5%	-6.9%	6.3%	4.1%
GBP	-18.0%	-4.4%		3.6%	-10.7%	-6.6%	-0.1%	-11.0%	1.6%	-0.5%
JPY	-20.6%	-7.7%	-3.4%		-13.7%	-9.8%	-3.5%	-14.1%	-1.9%	-3.9%
CHF	-8.2%	7.0%	11.9%	15.9%		4.6%	11.8%	-0.4%	13.7%	11.4%
AUD	-12.2%	2.3%	7.1%	10.9%	-4.4%		6.9%	-4.7%	8.7%	6.6%
NZD	-17.9%	-4.3%	0.1%	3.7%	-10.6%	-6.5%		-10.9%	1.7%	-0.4%
CAD	-7.8%	7.4%	12.4%	16.4%	0.4%	5.0%	12.3%		14.2%	11.9%
SEK	-19.2%	-5.9%	-1.6%	2.0%	-12.0%	-8.1%	-1.7%	-12.4%		-2.0%
NOK	-17.6%	-4.0%	0.5%	4.0%	-10.2%	-6.2%	0.4%	-10.6%	2.0%	

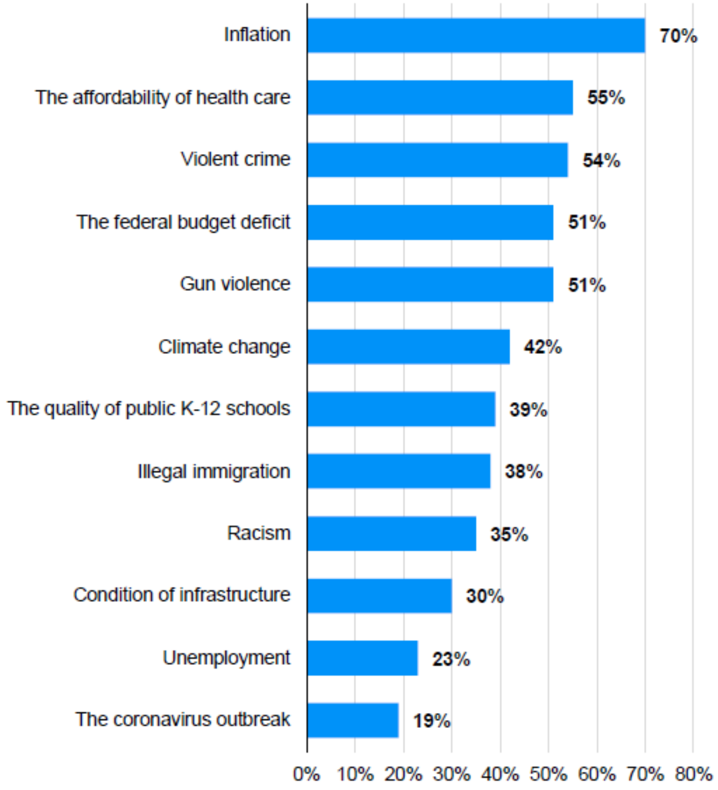
Source: JP Morgan and Koyfin

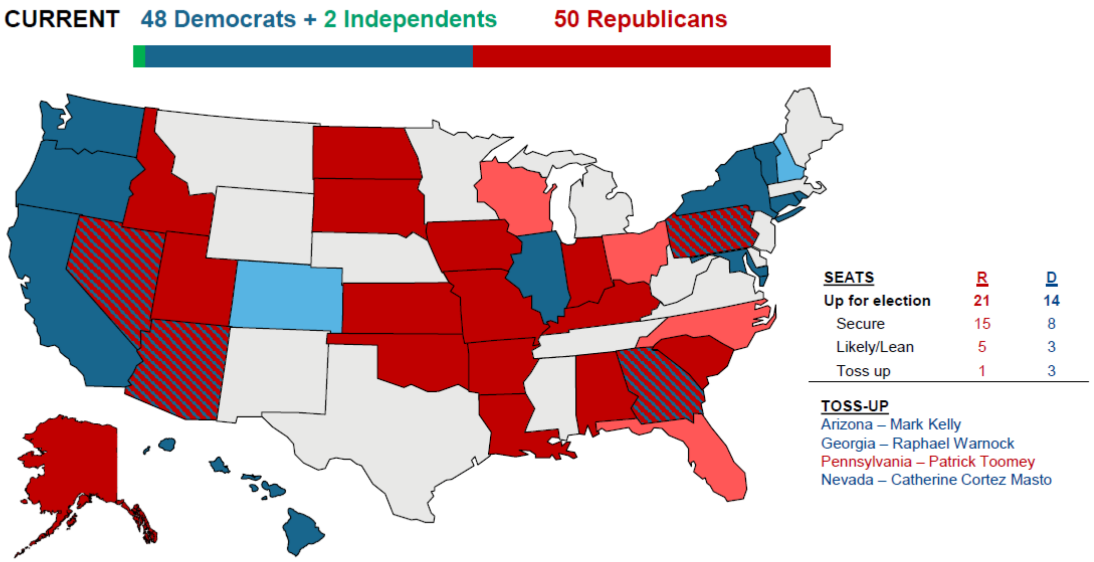
MIDTERM ELECTIONS

- 35 seats are up for election in the Senate with 4 major toss ups. Currently, Republicans are favored to win the Senate and gain seats in the House.
- Inflation and the economy are more important issues to Republican voters, whereas gun control and abortion are more important to Democrats.



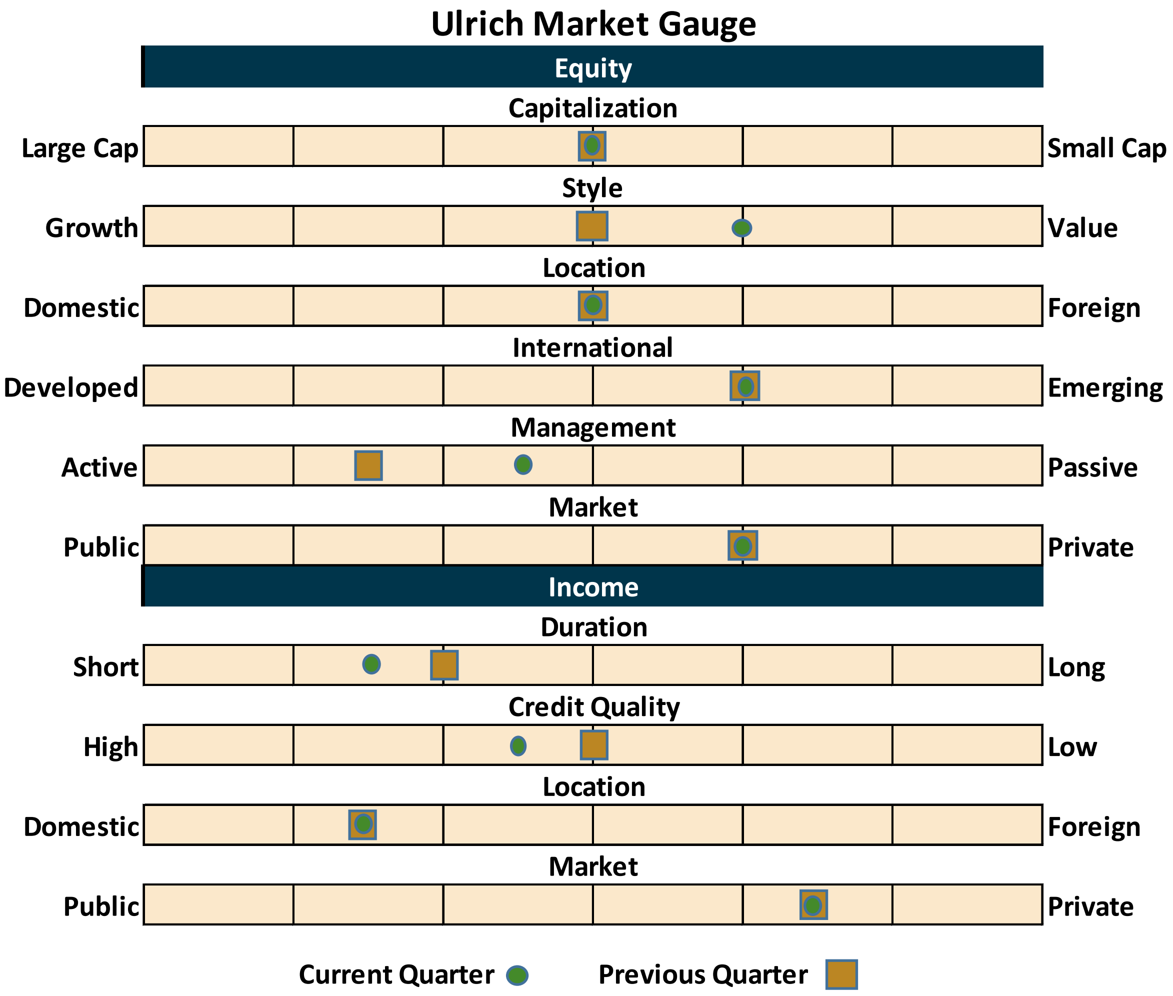
% Who say each of the following is a very big problem in the country today





Source: JP Morgan

SUMMARY AND OUTLOOK



- Currently, markets are not pricing in any positive news; a ceasefire, lower inflation data, or a Fed pause. Any changes to this could provide tailwinds to stock prices.
- We prefer higher quality value and cyclical stocks that should perform better in a higher interest rate environment. Within growth stocks, given the concentration of the market, we feel a passive approach is more favorable.
- Any weakness in the dollar could benefit international and multi-national stocks.
- A re-opening of China could stimulate demand rapidly and positively affect emerging markets.
- We continue to shorten and upgrade the quality of our fixed income portfolio; however, high yield could become more attractive in the coming months.
- We do see the need and desire for improving the energy grid and infrastructure as well as the restructuring of supply chains and continue to look for opportunities to capitalize on what should be bi-partisan initiatives.
- We believe portfolios will benefit from the addition of Alternative Investments; however, rising rates make private credit less attractive.