PATHSTONE
THE MODERN FAMILY OFFICE™

Market Flash Report

Q3 2022

Key Takeaways

- Headline inflation has cooled off in Q3 with CPI readings of 8.5% and 8.3% YoY for July and August, but still remains stubbornly high. Core inflation had been flat for several months but picked up again in August to 6.3% YoY.
- On the bright side, payrolls have continued to surprise, as the U.S. economy added 526k jobs in July and 315k in August vs. estimates of 235k and 295k. The strong labor market has allowed the Fed to raise the Fed Funds rate to an upper bound of 3.25% after 75 bps hikes in July and September. Markets are currently pricing in another 100 bps of rate increases by the end of the year.
- Q3 was difficult for both equities and bonds and marks the 3rd straight quarter of negative performance for the S&P 500. The large cap index returned -4.9% for the quarter and the NASDAQ dropped -3.9%.
- Investors have taken some risk off the table since the Fed's meeting at Jackson Hole in August, which provided a clear signal on the Fed's intent to fight inflation aggressively. Value has outperformed growth and U.S. Large Cap has outperformed U.S. Small Cap since this meeting occurred.
- Developed International equity returns were propelled lower due to weakening currencies vs. the USD. The Euro, Pound, and Yen were down -2.5%, -3.9%, -4.0% in September alone. Chinese equities sold off almost 15% for the month and 22.5% for the quarter as they continue to deal with slower growth hindered by their "Zero-Covid" policies.
- Bonds suffered as 10-year Treasury yields rose over 60 bps and 2-year Treasury yields rose almost 80 bps in September, deepening the inversion of the yield curve.

ALASKA
ARIZONA
CALIFORNIA
COLORADO
FLORIDA
GEORGIA
MASSACHUSETTS
NEW JERSEY
NEW YORK
TEXAS
VIRGINIA
BELLEVUE, WA
SEATTLE, WA
WASHINGTON D.C.

888-750-PATH (7284)
www.pathstone.com

Index Performance (as of 09/30/2022)

	Q3 2022	One-Year	Three-Year
Equity			
U.S. Large Cap	-4.88%	-15.47%	8.16%
U.S. Small Cap	-2.19%	-23.50%	4.29%
Developed Non-U.S.	-9.29%	-24.75%	-1.38%
Emerging Market	-11.42%	-27.80%	-1.71%
Real Assets			
Real Estate	-11.63%	-22.65%	-5.70%
Commodities	-4.11%	11.80%	13.45%
Natural Resource Equities	-2.15%	22.58%	11.36%
Fixed Income			
Core Plus			
U.S. High Yield Debt	-0.65%	-14.14%	-0.45%
Emerging Market Debt	-4.90%	-24.86%	-7.31%
Core Bonds			
U.S. Aggregate Bonds	-4.75%	-14.60%	-3.26%
U.S. Treasuries	-4.35%	-12.94%	-3.11%
U.S. Municipal Bonds	-2.30%	-7.55%	-0.83%
	Current	**Prior Month**	**One-Year Ago**
Month-End Values/Yield			
CBOE Volatility Index	31.62	25.87	23.14
10-Year Treasury Yield	3.83%	3.20%	1.49%

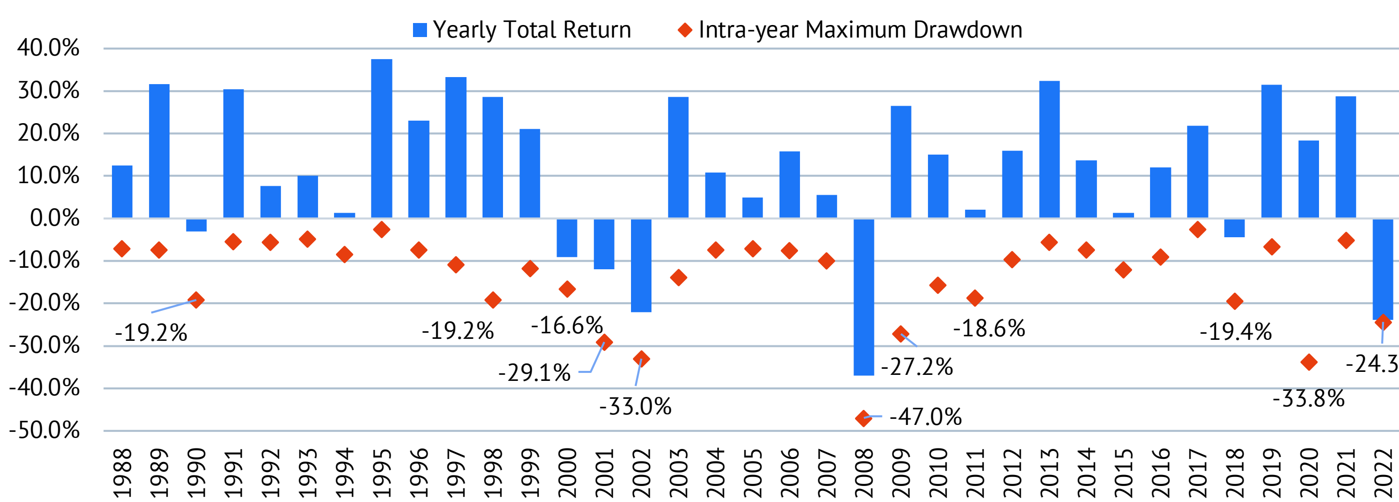
Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized.

Quarterly Commentary

- As we enter Q4 of 2022, there is growing concern that the U.S. economy might enter a recession. Our Market Cycle Dashboards have been negative for several months now and are at their lowest reading since April 2020.
- Momentum from fiscal and monetary stimulus, as well as economies reopening from the pandemic, is fading, evidenced by weaker consumption and slowing manufacturing. Higher mortgage rates, combined with a stronger dollar, will present a challenge to economic growth in the months to come.
- Neither the Fed nor the Federal government are likely to spur growth if inflation continues to be hotter than expected. This will mean higher interest rates for the foreseeable future, negatively impacting the return prospects for long-duration assets such as longer maturity bonds and growth equities.
- There is good news in the U.S. labor market, which has been resilient thus far, with persistent strength in the number of jobs added every month and no weakness in weekly initial jobless claims. The bad news is that this labor strength is a principal reason for stubborn inflation and will be a key barometer for the duration of the Fed's tough stance.
- Higher interest rates have revealed cracks in not only the U.S. economy, but the global economy as well. The Bank of England has already had to reverse course and buy treasuries to support UK pensions searching for liquidity. If a recession hits global economies, there could be other unforeseen consequences.
- For most investors, 2022 has been a difficult year, most clearly viewed by the performance of a traditional 60/40 portfolio – down 21%. A lingering pandemic, war, inflation, and interest rates have created a pessimistic outlook for Q4. Volatility is likely to remain elevated and the current environment calls for a disciplined approach. Periodic rebalancing at attractive valuations and being broadly diversified with an overweight to short-duration fixed income are our most powerful tools at this time.

S&P 500 Yearly Total Return and Intra-year Max Drawdown (1988-2022)



Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized.

PATHSTONE
THE MODERN FAMILY OFFICE™

Disclosures

Past Performance Is No Guarantee of Future Performance. Any opinions expressed are current only as of the time made and are subject to change without notice. This report may include estimates, projections or other forward looking statements, however, due to numerous factors, actual events may differ substantially from those presented. The graphs and tables making up this report have been based on unaudited, third-party data and performance information provided to us by one or more commercial databases. Additionally, please be aware that past performance is not a guide to the future performance of any manager or strategy, and that the performance results and historical information provided displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, it should not be inferred that these results are indicative of the future performance of any strategy, index, fund, manager or group of managers. While we believe this information to be reliable, Pathstone bears no responsibility whatsoever for any errors or omissions. Index benchmarks contained in this report are provided so that performance can be compared with the performance of well-known and widely recognized indices. Index results assume the re-investment of all dividends and interest. Moreover, the information provided is not intended to be, and should not be construed as, investment, legal or tax advice. Nothing contained herein should be construed as a recommendation or advice to purchase or sell any security, investment, or portfolio allocation. Any investment advice provided by Pathstone is client specific based on each clients' risk tolerance and investment objectives. This presentation is not meant as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's specific investment objectives.

U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the Bloomberg Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.

Sources: Bloomberg, Morningstar, treasury.gov. S&P Dow Jones Indices.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved. Returns over one year have been annualized.