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October 2022 Recap

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PRELUDE

The fourth quarter of 2022 began on a positive footing with risk assets surging despite the continuation of recessionary trends. Inflationary measures such as the producer price index, consumer price index, and the personal consumption expenditure (PCE) deflator continued to show stubbornness in price increases. The third quarter GDP growth figure advanced 2.6% on an annualized basis, but the largest contributor was net exports, which does not support a strong consumption base on the United States soil. And despite the 3.5% unemployment rate, full time employment continued to fall while multiple job holder numbers climbed. Finally, surging mortgage rates have stalled housing market activity, and homes values are beginning to top out as well. Pockets of fundamental weakness persist, but the hope of a potential Fed pivot is a strong elixir. The markets drank the potion and soared, providing a positive respite in the midst of a long bear market.

GLOBAL EQUITY

Equity markets around the world rebounded for October, providing relief in what appears to be a fundamental bear market. In the U.S., the S&P 500 index gained 8.1% as earnings season went into full swing. Energy, Industrials, and Financials sectors recorded double-digit gains, aiding value style to outperform growth. For yield-sensitive Real Estate and Utilities sectors, the persistent rise

in Treasury yields provided stiff competition. The rebound in the equity markets reflect hope that the Fed would provide a pivot in their policy stance, following in the softening tone of their peers like the Bank of Canada and the European Central Bank. From a fundamental standpoint, however, we continued to hear about current and futures economic challenges from our corporate leaders during this earnings season. And with blended year-over-year (YoY) earnings per share growth at 2.2%[2] for Q3, we are far from the +9% YoY earnings growth we were expecting for this quarter just five months ago.

International market performance diverged between developed and emerging worlds for the month of October. MSCI EAFE, representing developed countries, gained 5.3% while MSCI EM (emerging markets) lost 3.4% for the same time period. In the developed world, Europe benefited from the overall risk on attitude, even as inflation measures continued to hit record highs. And despite the unseasonably warm October resulting in lower natural gas prices, energy issues remain with winter months still ahead. Emerging market equities also participated in the general upward momentum of the market, but China detracted severely from performance while carrying the largest weight in the MSCI EM Index. Chinese equities (MSCI China) lost 16.8% for October, and 10.3 percentage points of the loss were posted after the 20th Congress of the Chinese Communist party (CCP). Xi Jinping exhibited greater power over the party and articulated a continued effort to crack down on situations that go against the CCP's interests. And for investors,

TABLE 1: **Global Equity**	OCT	QTD	YTD	1 YR
Dow Jones Industrial Average	14.07	14.07	-8.42	-6.74
S&P 500 Index	8.10	8.10	-17.70	-14.61
Russell 2000	11.01	11.01	-16.86	-18.56
Russell 1000 Growth	5.84	5.84	-26.61	-24.60
Russell 1000 Value	10.25	10.25	-9.32	-7.00
MSCI ACWI USD	6.03	6.03	-21.14	-19.96
MSCI EAFE USD	5.38	5.38	-23.17	-23.00
MSCI EM USD	-3.11	-3.11	-29.42	-31.03
MSCI ACWI ex US USD	2.99	2.99	-24.31	-24.73

Source: Bloomberg, as of 10/31/2022. Past performance does not guarantee future returns.

2 FactSet Earnings Insight, 10/28/2022

this may mean a need to revise the risk versus reward analysis for investments in China.

FIXED INCOME

The U.S. Treasury yield curve continued to shift upward during October, contributing to lower fixed income returns for most major indices. The Bloomberg U.S. Aggregate Bond Index fell 1.3% for the month, extending its losses for 2022 to near 16%. The risk on attitude in the equity markets resulted in compression of corporate credit spreads; the winner during the month was the Bloomberg High Yield Corporate Index, benefiting from narrowing spreads as well as a high income profile.

TABLE 2: **Fixed Income**	OCT	QTD	YTD	1 YR
Bloomberg US Aggregate	-1.30	-1.30	-15.72	-15.68
Bloomberg 1-3 Yr Gov/Credit	-0.13	-0.13	-4.66	-4.88
Bloomberg Treasury 5-7 Yr	-0.76	-0.76	-13.04	-12.77
Bloomberg Investment Grade Corp	-1.03	-1.03	-19.56	-19.57
Bloomberg High Yield Corp	2.60	2.60	-12.53	-11.76
JPMorgan EMBI Global Diversified	0.15	0.15	-23.83	-24.19

Source: Bloomberg, as of 10/31/2022. Past performance does not guarantee future returns.

Toward the end of October, a dovish attitude began to influence the market sentiment. Yields climbed down a bit and equity markets took a breather. At the center was the idea that the Fed may not stick to their hawkish plans; after all, the European Central Bank and the Bank of Canada started to tread lightly on their contractionary path. Could the Fed pivot? Perhaps. From the perspective of inflation, the Fed has no reason to pivot; taming inflation remains the Fed's priority, and with the latest Core PCE deflator up 5.1% YoY, it does not seem that inflation's peak is comfortably behind us. It may slow its hawkish program, but a change in the direction of policy does not seem to be in the near future. However, there are structural challenges that may pressure the Fed to pivot: the challenges in reconciling the Fed's balance sheet, and a potential liquidity shock in the Treasury market. For November, we are expecting a 75-bp rate hike, and another hike in December in the range of 50-75 bps. But in 2023, the Fed may run up against structural issues in the monetary system that may put a limit on what they can do with policy.

POSTLUDE

Whether or not the Fed pivots is an important ingredient in where we may be headed in 2023. A change in direction of policy would resolve a lot of the issues including rapid currency depreciation for our allies, solvency for emerging markets, and the general health of the global financial condition. However, that issue of inflation would remain unresolved for the Fed, and price stability is one of the key purposes of its existence. As we sit here in November, what the Fed will do in 2023 is only a guess and that they might pivot is hope. But for investors, hope is not an investment strategy. The purpose of a diversification is that when surprises come, such as a spike in rates or a potential Fed pivot, the portfolio remains robust to handle those shocks. This is what it means to be a long term investor – not to guess, not to hope, but to build for whatever challenges and prosperity may lie in the future.

Anna Rathbun serves as the Chief Investment Officer for CBIZ Investment Advisory Services. Her tenure with the firm has spanned economic and market research, portfolio construction, and creating insights in investment themes to share with the investment community. Anna began her career in investments at Wellington Management, and subsequently, Harvard. She has served as a Managing Director for a registered investment advisory firm where she specialized in alternative investments. She is a graduate of Harvard University with a B.A. in Economics. Her early passion for the arts led her to classical music, for which she obtained a Master of Music and Doctor of Musical Arts from the Cleveland Institute of Music. Anna's career in music spanned a wide spectrum of performances to a faculty position at her alma mater. With a unique background that embraces both finance and the arts, Anna is dedicated to the issue of financial sustainability for organizations serving a mission.