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# September 2022 Recap

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During times of market turbulence, investors look for signs of stability. Unfortunately, we have received conflicting policies from our world leaders. For example, in the U.S., the Federal Reserve has targeted inflation as enemy number one and are raising interest rates in battle, while Washington has been supportive of policies that ease the money supply. During the last week of September, the United Kingdom embarked on a similar discordant policy journey, with the Bank of England instituting rate hikes to fight inflation while the new Prime Minister decided to provide tax cuts. What ensued in response to the conflicting policies was the market's objection to the belief that one could print money to solve all the world's problems and is described further in the fixed income section of this letter. In all, September was a month of confusing policies, a volatile response by the markets, and a realization that fiscal policies may be limited in providing market stability in the intermediate term.

## GLOBAL EQUITY

The global markets continued the downward trend for the month of September. The S&P 500 Index gave back 9.2% as the Fed continued to reinforce their mission of achieving price stability. The rapid rate hikes and the tighter financial conditions impacted small caps with Russell 2000 underperforming its larger counterpart. From a sector perspective, the patterns of impact were not clear. Rising rates continued to reprice Tech-oriented stocks while impacting Real Estate and Utilities sectors that serve as bond proxies in equity markets. Cyclical sectors also sold off, most notably Energy and Materials sectors as commodity prices descended in anticipation of a global economic downturn. It seems there was no place to hide during September.

TABLE 1: **Global Equity**

| | SEP | QTD | YTD | 1 YR |
|---|---|---|---|---|
| **Dow Jones Industrial Average** | -8.76 | -6.17 | -19.72 | -13.40 |
| **S&P 500 Index** | -9.21 | -4.88 | -23.87 | -15.47 |
| **Russell 2000** | -9.57 | -2.18 | -25.11 | -23.53 |
| **Russell 1000 Growth** | -9.72 | -3.60 | -30.66 | -22.59 |
| **Russell 1000 Value** | -8.77 | -5.62 | -17.75 | -11.36 |
| **MSCI ACWI USD** | -9.57 | -6.82 | -25.62 | -20.66 |
| **MSCI EAFE USD** | -9.35 | -9.36 | -27.09 | -25.13 |
| **MSCI EM USD** | -11.72 | -11.57 | -27.16 | -28.11 |
| **MSCI ACWI ex US USD** | -10.00 | -9.91 | -26.50 | -25.17 |

*Source: Bloomberg, as of 9/30/2022. Past performance does not guarantee future returns.*

International returns were also challenged, particularly as the U.S. dollar (USD) strengthened further. The MSCI EAFE Index representing developed countries posted a 9.4% loss as Europe and Japan grappled with loss of investor confidence. The euro, the British pound, and the yen slid down further against USD as the energy shortage in these parts of the world looms large against impending winter months. During September, we saw the nationalization of the faltering German energy company Uniper, a direct intervention by the Bank of Japan in the currency markets to support the yen, and the new Prime Minister of England resort to a debt-financed tax cut to subsidize soaring energy prices. These developments do not build confidence for market sentiment. In trickle-down fashion, the slowdowns in the developed parts of the world impact demand for goods from export-driven EM economies. The MSCI EM Index slid 11.7% for the month with China leading with a 15% loss, still plagued by COVID lockdowns, falling exports, and the ongoing real estate woes.

## FIXED INCOME

Interest rate risk continues to be the main driver of fixed income returns. The U.S. Treasury yield curve shifted upward during September, weighing on the value of the major bond indices. With the faltering market sentiment, corporate credit spreads also widened as additional headwind for fixed income investors. The

widely used Bloomberg U.S. Aggregate Index is down 4.3% for the month and for year to date is posting a -14.6% return. From a calendar year perspective, 2022 is turning out to be the worst year for fixed income investments we have seen in many decades. However, the yield profiles of fixed income investments have improved, with 2-year Treasury note yielding more than 4% by the end of September, and the Bloomberg High Yield Index showing a month-end yield of 9.7%. The Fed's rate hikes have been painful for bonds, but it has also resulted more attractive yield profiles for income-oriented investors.

| TABLE 2: **Fixed Income** | **SEP** | **QTD** | **YTD** | **1 YR** |
|---|---|---|---|---|
| **Bloomberg US Aggregate** | -4.32 | -4.75 | -14.61 | -14.60 |
| **Bloomberg 1-3 Yr Gov/Credit** | -1.22 | -1.48 | -4.54 | -5.07 |
| **Bloomberg Treasury 5-7 Yr** | -3.53 | -4.46 | -12.37 | -12.87 |
| **Bloomberg Investment Grade Corp** | -5.26 | -5.06 | -18.72 | -18.53 |
| **Bloomberg High Yield Corp** | -3.97 | -0.65 | -14.74 | -14.14 |
| **JPMorgan EMBI Global Diversified** | -6.36 | -4.57 | -23.95 | -24.28 |

*Source: Bloomberg, as of 9/30/2022. Past performance does not guarantee future returns.*

Like the Federal Reserve, most major central banks around the world are engaging in contractionary monetary policy. The synchronized removal of liquidity from the global financial system is a daunting task and risks a potential overtightening of financial conditions. In addition, the liquidity crunch in the British bond/gilt market highlighted other potential risks associated with current trends in policymaking. When the new Prime Minister of U.K., Liz Truss announced debt-financed tax cuts in an inflationary environment, we saw the markets disapprove loud and clear, resulting in spiking yields, plummeting currency, and a frozen market. The lack of liquidity in the British bond market forced the Bank of England to reverse its quantitative tightening policy and to become the buyer of last resort again. And the experience forced the U.K. government to abandon the tax cut idea altogether. What happened in the U.K. is a reminder that policy cannot solve all problems, that one cannot replicate natural gas molecules in the same way governments have printed money, and that the markets will make their opinion known on poor policy choices.

## CODA

Some people have asked if the advances made by the Ukrainian military will mean that the energy issues in Europe will be resolved. Even if there had been hopes of an energy relief through peace, that slim possibility is now erased with the sabotaged Nordstream pipelines. Heating Europe is not only a physical challenge of obtaining resources, it is also a financial challenge of dealing with the catapulting prices that no doubt weigh on households, factories, and offices. As we hope for a warm winter in the northern hemisphere, other challenges remain for the global economy. Contractionary central bank policies and waning consumer demand are the themes to watch for the rest of 2022. While it may feel like negative news is dominating the headlines, it is prudent to take a long-term view during a bear market. It is natural for economies and markets to move in cycles, which means there are ups like 2020 and 2021, and downs like this year. And over a long time horizon, a well-constructed portfolio experiences multiple cycles while participating in the upside of global economic growth as well as the human tendency to strive and innovate. We may see volatility ahead, but the best practice in investing remains staying the course.

**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.