Gasaway Investment Advisors, Inc.
"Helping you navigate your financial course"

October 28, 2022

2022 Third Quarter Update

The third quarter of 2022 continued this year's trend of high volatility in the markets, high inflation, rising interest rates, and global unrest. July, August, and September saw very different market returns and economic data and led to another quarter with much data to unpack.

Monthly Highlights for Q3

July

The stock market, measured by the S&P 500 index, rose 9.1% in July.[1] Gas prices finally began decreasing after peaking in June, and the economy added a massive number of jobs, far surpassing expectations. The Federal Reserve raised interest rates by 0.75%.[2]

August

The market declined 4.2% in August, mostly due to the Federal Reserve saying that they are committed to bringing down inflation, even if it means sacrificing economic and job growth.[3] Gas prices continued declining, and the job market remained strong.[4]

September

Following historical trends, the market dropped significantly in September; it ended the month down 9.3%.[5] The Federal Reserve raised interest rates again to our current level of 3% to 3.25%.[6]

Inflation

Inflation, as measured by the Consumer Price Index (CPI), has proven to be very sticky throughout 2022, and has remained much higher than economists, the Federal Reserve, or anyone would have predicted at the beginning of the year. After what looks to be the peak in June at 9.1%, inflation has stayed at over 8% from July to September.[7,9,&10] This is a year-over-year number, meaning that prices are over 8% higher now than they were a year ago. Energy prices have begun to taper off since June, but other categories such as food and rent of shelter, the highest contributor to CPI, have remained elevated.[7]

Rising Interest Rates

In order to combat inflation, the Federal Reserve has begun raising interest rates to slow spending and economic growth and encourage borrowing. After beginning this year at 0%, the federal funds rate now sits at a range of 3% to 3.25%, with another 0.75% rise likely coming in early November. This has been noticed most glaringly by the average consumer in mortgage rates, with the 30-year fixed rate climbing from under 3% in late 2021 to around 7% today.[8] Consumers will also notice these rate hikes in auto loans and every other form of financing.

Another result of these rate hikes is that fixed income investments such as Certificate of Deposits (CDs) and Treasury securities now look very attractive. As of October, we can get investors a 4.4% return for a CD that matures in 1 year. These and the yields on treasuries are the highest since 2000.

The Federal Reserve has promised that it will not stop raising rates until it sees inflation significantly and consistently coming down. This will likely lead to slower job growth, higher unemployment, and slower economic growth, but it is a price the Fed is willing to pay for easing prices for the consumer.

Global Factors

While there are fears of recession and significant economic slowdown in the United States, global outlooks are even more negative. The conflict between Russia and Ukraine has continued to wage on into the fourth quarter. China is still recovering from strict lockdowns and now reacting to the news of totalitarian President Xi Jinping being there to stay. Much of Europe is seeing higher inflation and slower growth than here in the United States and facing an energy crisis as winter approaches. These global recession fears and their impacts on supply chains and trade will further add to domestic fears and potential negative results for US markets in the near future.[11]

Conclusion and Outlook

This year has been a historically volatile and significantly negative one for the markets. Forecasts of corporate earnings, economic growth, and the price of stocks have declined throughout the year as inflation and interest rate projections have increased with the data that is released.

So, is there any good news? There is.

- We are almost through what are historically two of the worst months for the stock market, September and October, and coming up on what are historically some of the best months in the market.[12]
- The midterm elections will be completed soon, and any uncertainty around which party will take control of the House or Senate or who will win any given gubernatorial race will be put to rest. Since the market hates uncertainty, any outcome from the elections may very well be beneficial for stocks.
- Investors have known about the Federal Reserve's rate-hiking plans for a while now, so much of that negative impact is priced into the market. Once interest rates stop rising, which is estimated to be in the first half of 2023, sentiment towards the economy and equity markets will likely grow more positive.
- Finally, with the market down over 20% from its peak, this is a buying opportunity, or at least a chance to continue buying in and lowering your cost basis in your positions.[13]

We will continue to watch the stock and bond markets, global factors, corporate earnings, and the overall economy and manage and invest your money prudently. As always, feel free to reach out to us with any questions, comments, or concerns about your investments or the markets in general.

1. Market Performance in July
2. July federal funds rate and outlook
3. Market performance in August
4. August employment numbers
5. Market performance in September
6. Current Federal Funds Rate
7. Inflation in September
8. Mortgage rates in September
9. Inflation in August
10. July inflation
11. Global Economy
12. Average Monthly Market Returns
13. Markets Now