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Dear Valued Investor,

In the last several weeks, we have continued to face elevated uncertainty in financial markets due to high inflation and rising interest rates, and we thought it was an important time to take stock with the final quarter of 2022 just ahead.

It has been a difficult year, not only for investors but also for households and businesses as we all navigate higher prices and borrowing costs. There will be some challenges ahead for the economy as the Federal Reserve (Fed) continues to raise rates to control inflation. We believe the Fed is doing the right thing for the long-term health of the economy, but it does increase near-term economic risks.

Given these risks, we are receiving many questions about stagflation and concerns that we may again be facing the investment environment of the 1970s. But this is not your 1970s- style stagflation. While growth has stalled and inflation has been high, the unemployment rate has remained very low. The average unemployment rate during the stagflationary years in the 1970s and early 1980s was 6.7%, compared with just 3.7% in August of this year. Unemployment will move higher, but it's likely to remain low by comparison, giving the economy more resilience than in the 1970s.

At the same time, inflation is decelerating. Gas prices and agricultural commodity prices, for example, have declined throughout this summer. Moreover, rents in some areas of the country are dropping, durable goods prices are declining, and many import prices are falling. When our central bankers are sufficiently convinced, the Fed can slow the pace of tightening as inflation moves closer to their long-run target. Some of the recent market volatility came from mixed inflation signals, so as the signals become more aligned, we expect volatility will fall and investor sentiment will improve.

That level of bearishness right now is very high, but it's important to remember that historically extreme negative sentiment has often been followed by strong market performance. To take just one example, the American Association of Individual Investors (AAII) has been doing a weekly survey since the 1987. Last week's survey had a level of bearishness seen only four other times before. S&P 500 returns a year later in those cases averaged over 30%. We don't know whether that will happen again, but there's still an important takeaway. As we experienced in 2020, when a lot of negative sentiment is being priced into markets, it may set the bar low for stocks to outperform expectations.

We also have some positive seasonal patterns ahead. November through April are historically strong months for equities. Stocks have also done well after mid-term elections. And the third year of the four-year presidential cycle (which we enter in 2023) has historically been the strongest for stocks.

The recent declines are concerning, and we can't be certain when the volatility will end. But we do know that conditions continue to indicate that better times are ahead. Market volatility and negative sentiment can make it harder to make investing decisions, but we believe the surest path forward remains sound financial advice from experienced and dedicated professionals.

Please contact your financial advisor with questions.

Sincerely,

Jeffrey J. Roach

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