Executive Summary: October 2022 Unique Wealth Market Commentary

The U.S. equity markets, as represented by the S&P 500 index, declined -9.2% in September, while the Nasdaq was down -10.5% for the month. The market had initially rallied off the June lows on anticipation of a possible Fed "pivot." Yet following: (i) Fed Chairman Jerome Powell's August 26th speech at the Central Bankers Symposium in Jackson Hole, Wyoming, and then (ii) Chair Powell's news conference commentary after the FOMC's September 21 FOMC policy meeting, stock and bond prices have declined on expectations of higher rates for longer (perhaps extending through 2023).

Factors Likely to Exert Significant Influences on Financial Asset Prices:

(i) **Slowing Economic Growth**: According to the Organization of Economic Cooperation and Development (OECD), US Real GDP Growth is expected to slow to 1.5% in 2022. With consumer and corporate demand experiencing *downward momentum* and profit margins being squeezed by *upward pressure* on labor, interest, and selected input costs, S&P 500 companies are expected to report (according to FactSet) Q3 earnings growth of +2.9% (which would represent the lowest growth rate since 3Q2020).

(ii) **Declining US Corporate Profit Growth**: Foreign earnings represent an important component of the profits of U.S. multinational companies that populate the S&P 500 index. These foreign earnings are expected to be subpar, in part due to a strong US Dollar. Barring exogenous shocks, we believe aggregate 2023 S&P 500 earnings appear likely at this point to end somewhere in the range of $215-$230.

(iii) **Labor Market Tightness:** Upward pressure on labor costs has been a persistent characteristic of this year —represented by the weekly lows in initial jobless claims for unemployment insurance. A lack of available labor and unbalanced labor market conditions has kept the pressure on the Fed while at the same time exerting downward pressure on corporate profits.

(iv) **Household Wealth Drawdown:** Perceived and actual declines in the aggregate net worth of the household sector can lead to weakening effects on consumer psychology and spending. Some meaningful portion of the decelerating hit to personal consumption derives from the first six months of 2022's -$13 trillion retreat in equities market capitalization as well as a -$3 trillion decline in the market value of U.S. high-grade bonds.

(v) **Inflation:** For the month of August, YoY CPI ticked down slightly to 8.3%, while Core CPI increased to 6.3% YoY. We are of the opinion that inflation is likely to continue trending downward, albeit at a gradual pace, to a range of +3.5-4.5% in 2023.

As of now, we believe that financial asset prices are likely to be driven by the degree of the Federal Reserve's inflation-fighting resolve, which in turn should exert influence on the course of the economy and corporate financial results. We expect S&P 500 earnings estimates to be guided downward by corporate management and analysts in the waning months of 2022, which is likely to present somewhat of a headwind on equity prices. Against this backdrop, along with the U.S. Midterm Elections on Tuesday, November 8th, investors should prepare for volatility in October and the remaining months of this year.

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