

QUARTERLY RECAP

Third Quarter 2022 Recap

At-A-Glance

The S&P 500 nosedived in September, finishing the third quarter at a new 2022 low, down 24.36% from its January 3, 2022 peak.

The Nasdaq Composite lost 10.44% last month, more than erasing a net 7.3% July-Aug gain to end the 3Q down 3.91%. The index is down 32% YTD.

The Dow Industrials shed 2,785 points (-8.76%) in September for a 6.17% net loss in the 3Q. The 30-stock index has lost over 7,612 points (-19.72%) since the start of the year.

Although U.S. equities remain in a bear market, the S&P 500 still has outsized gains since the pandemic bear-market low on March 23, 2020. Since that date, the S&P 500 and Nasdaq Composite have held onto gains of 66.7% and 57.2% respectively.

Natural gas futures ended the 3Q at \$6.77/MMBtu, down 23% Q/Q. Nat gas is down 30% from its Aug 22 year high (\$9.68), although still up 82% from its Jan 4 year low at \$3.72.

Overall, the Bloomberg Commodity Index fell 8.11% in September, more than erasing a 4% net July-Aug gain to end the 3Q down 4.11%. This trimmed commodities YTD gain to 13.57%.

Market Indices ¹	September	3Q 2022	Year-to-Date
S&P 500	-9.21%	-4.88%	-23.87%
Russell 3000	-9.27%	-4.46%	-24.62%
Russell 2000	-9.58%	-2.19%	-25.10%
MSCI EAFE	-9.35%	-9.36%	-27.09%
MSCI Emerging Markets	-11.72%	-11.57%	-27.16%
Bloomberg US Aggregate Bond	-4.32%	-4.75%	-14.61%
Bloomberg US Municipal Bond	-3.84%	-3.46%	-12.13%
Bloomberg US Corporate High Yield	-3.97%	-0.65%	-14.74%

¹Morningstar Direct (all performance figures are total return based, which include reinvested dividends)

U.S. stocks delivered their worst monthly performance since the depth of the pandemic sell-off in March 2020, capping the S&P 500 and Nasdaq Composite with their third straight quarterly losses for the first time since the global financial crisis in 2008 and 2009. Moreover, the S&P 500 posted its worst September loss since 2002. Equities have been stung by a series of three successive ¼ point (0.75%) central bank rate hikes since mid-June, the last of which on September 21 brought the Fed Funds key lending rate to a target range of 3.0%-3.25%. Fed policymaker's interest rate projections now show a steeper frontloaded rate path than previously expected. The median Fed Funds rate is expected to end this year at 4.4%, implying another 0.75% hike likely in November followed by at least a 0.50% increase in December.

The 100 largest Nasdaq stocks (the Nasdaq 100 Index) skidded more deeply into a bear market, down 32.35% year-to-date (YTD). The growth-focused Nasdaq index has suffered steep losses this year in part because rising interest rates make future profits from growth companies less attractive. More broadly, analysts' consensus view for third quarter S&P 500 year-over-year (Y/Y) earnings growth is 4.5%, down from an 11.1% estimate when the quarter began.

Battling inflation is proving challenging for the Federal Reserve. The price consumption expenditures (PCE) price index (the Fed's preferred measure of inflation) increased by 0.3% in August, following a 0.1% decline the month prior. From a year ago, the PCE price index is up 6.2%, more than three times the Fed's 2% inflation target. Meanwhile, the core PCE price index (excluding volatile food and energy) rose 0.6% M/M and is up 4.9% Y/Y.

Looking at stocks by market capitalization, large and mid caps slightly outperformed small capitalization stocks for the month and YTD, small caps fell the least in the third quarter. As shown in the style box performance boxes below, growth stocks mostly moderately outperformed their value counterparts in September and the 3Q. The opposite prevailed on a YTD basis with notably smaller losses in value versus growth.

	September			Third Quarter			YTD 2022		
	Value	Core	Growth	Value	Core	Growth	Value	Core	Growth
Large	-8.77%	-9.25%	-9.72%	-5.62%	-4.61%	-3.60%	-17.75%	-24.59%	-30.66%
Mid	-9.70%	-9.27%	-8.49%	-4.93%	-3.44%	-0.65%	-20.36%	-24.27%	-31.45%
Small	-10.19%	-9.58%	-9.00%	-4.61%	-2.19%	0.24%	-21.12%	-25.10%	-29.28%

Morningstar Direct Style Box Index returns above are represented by: Large Value (Russell 1000 Value), Large Core (Russell 1000), Large Growth (Russell 1000 Growth), Mid Value (Russell Mid Cap Value), Mid Core (Russell Mid Cap), Mid Growth (Russell Mid Cap Growth), Small Value (Russell 2000 Value), Small Core (Russell 2000), Small Growth (Russell 2000 Growth). Source: Morningstar Direct, total return based, including reinvested dividends

In the sector performance tables below, all 11 major sector groups ended negative in September. In the third quarter Consumer Discretionary and Energy delivered positive returns while Communication Services lagged across all three time periods. Despite falling oil and natural gas prices, Energy sector stocks remain the standout performers this year. Crude oil has fallen in recent months as central banks tighten monetary policy to combat inflation. Chinese oil demand has faltered due to its COVID-19 lockdown policy. Aggressive Fed rate hikes also lifted the U.S. Dollar Index to 20-year highs and as most oil contracts are priced in dollars, a stronger dollar makes crude oil more expensive for foreign buyers, dampening demand. U.S. WTI crude oil ended the month down 11% at \$79.49/barrel, and down nearly 25% in the 3Q, its first quarterly loss in over two-years.

Top Sector Performers – September ¹		Bottom Sector Performers – September ¹	
Healthcare (-2.60%)		Technology (-12.01%)	
Financials (-7.76%)		Communication Services (-12.15%)	
Consumer Staples (-7.99%)		Real Estate (-13.15%)	
Top Performers – Third Quarter ¹		Bottom Performers – Third Quarter ¹	
Consumer Discretionary (+4.36%)		Materials (-7.13%)	
Energy (+2.35%)		Real Estate (-11.03%)	
Financials (-3.10%)		Communication Services (-12.72%)	
Top Performers – YTD 2022 ¹		Bottom Performers – YTD 2022 ¹	
Energy (+34.94%)		Consumer Discretionary (-29.89%)	
Utilities (-6.51%)		Technology (-31.44%)	
Consumer Staples (-11.83%)		Communication Services (-39.04%)	

¹Morningstar Direct (all performance figures are total return based, which include reinvested dividends)

Internationally, the MSCI EAFE Index, representing developed markets outside the U.S. and Canada, had fairly comparable losses to the United States in September, but saw deeper losses for the quarter, almost twice as much. Emerging markets were decidedly worse, with double-digit percentage losses in all three-time periods. China (-22.50%), South Korea (-16.40%) and Taiwan (-14.47%) fell the most among third quarter decliners, while India rallied 6.50%. Globally, the MSCI All-Country World Index fell 6.82% in the third quarter, while the ACWI, excluding U.S. performance, fell a larger 9.91%.

U.S. Treasuries, as measured by the Bloomberg U.S. Government Bond Index, fell 4.30% in the third quarter, and slumped 12.95% YTD. Looking at yields, the benchmark 10-year Treasury yield has jumped from 1.51% at the start of the year to 3.796% at the end of the third quarter. Spurred by aggressive Fed tightening and posturing its yield advanced for a ninth-straight week, its longest yield rally since early 1994, jumping 1.18 percentage points over the period.

In other fixed-income assets, investment-grade bonds of all types (as measured by the Bloomberg U.S. Aggregate Bond Index) also ended the quarter with deep losses, sliding nearly 4.75% in the third quarter and down over 14.6% YTD. Municipal bonds had smaller losses, giving back almost 3.5% last quarter to extend its YTD loss to over 12% YTD. Non-investment-grade high-yield debt fell the least during the quarter, with the Bloomberg U.S. Corporate High Yield Index down less than 1% last quarter to extend its YTD loss to 14.7%.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow [@CeteraIM](#) on Twitter.

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Glossary

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included.

The Bloomberg U.S. Municipal Bond Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holding have a fluctuating average life of around 12.8 years.

The Bloomberg U.S. Corporate High Yield Index measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years.

The **Bloomberg U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government).

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual re-weightings of the components).

The **Cboe Volatility Index**[®] (VIX[®]) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **MSCI All-Country World Index (ACWI)** is a market cap weighted index designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging

markets, covering more than 2,700 companies across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P BSE SENSEX Index** is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **Nasdaq Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.