Market & Economic Outlook 2022 – October Update: The Storm Before The Calm

Major Indices	Value (9/30/2022)	3Q22 (6/30/2022 - 9/30/2022) Price Return	Total Return	2022 YTD (12/31/2021 - 9/30/2022) Price Return	Total Return
S&P 500	3,585.62	-5.3%	-4.9%	-24.8%	-23.9%
Dow Jones Industrial Average	28,725.51	-6.7%	-6.2%	-20.9%	-19.7%
NASDAQ Composite	10,575.62	-4.1%	-3.9%	-32.4%	-32.0%
Russell 2000	1,664.72	-2.5%	-2.2%	-25.9%	-25.1%
MSCI EAFE (USD)	1,661.48	-10.0%	-9.3%	-28.9%	-26.8%
MSCI Emerging Markets (USD)	875.79	-12.5%	-11.4%	-28.9%	-26.9%
Bloomberg Commodity Index	111.49	-4.7%	-4.1%	12.4%	13.6%
Barclays U.S. Aggregate Bond	87.71	-5.3%	-4.8%	-16.2%	-14.6%

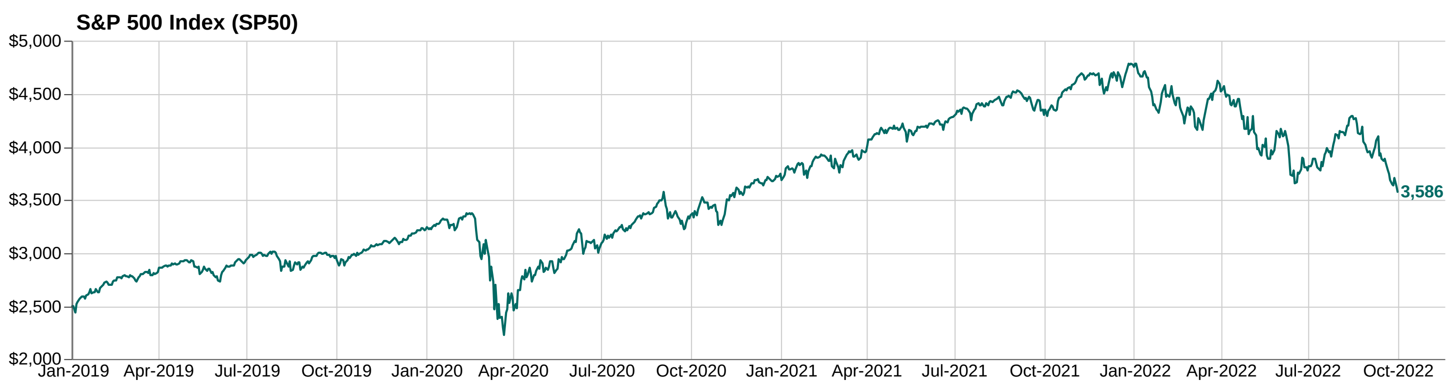
Data Source: FactSet through 9/30/22; Further discussion on market indices can be found in the Appendix section; Price Returns refer to the percent change in prices from the beginning of the period (6/30/2022) to the end of the period (9/30/2022); Total Returns include dividends paid.

Outlook Summary:

Financial market and corporate expectations have eroded since mid-August following a summer rally, and the widely followed S&P 500 equity index ended 2022's third quarter (3Q22) at its lowest closing price of the year. Amid ongoing uncertainty and a steady increase in interest rates since our July Market Outlook, we revise our S&P 500 fair value to 3,900 (from 4,200), which is 8.8% above the 9/30/22 index closing price, but -18.2% below the value at the end of 2021 (12/31/21). Uncertainty prevails entering 4Q22, as many concerns that have weighed on investor sentiment throughout 2022 remain in place. This includes elevated inflation (a threat to consumer spending), U.S. recession fears (which can hurt corporate earnings), war in Ukraine (disrupting energy and grain markets), and China's zero-COVID policy (creating supply chain disruptions and uncertain demand). In addition, the U.S. Federal Reserve Bank (Fed), after implementing a policy to raise its overnight bank lending fed funds interest rate target in March of this year, significantly increased the pace of hikes throughout the summer, vowing to prioritize higher interest rates to fight inflation at the expense of economic growth. All of this could lead to more pain ahead for equity investors; if not in the fourth quarter, uncertainty could linger into 2023 as markets digest the potential for a recession ahead. Despite the near-term uncertainty, however, the year-to-date (YTD) decline in major U.S. equity indices already reflects quite a bit of bad news and low expectations, in our opinion. We see attractive entry points for many high-quality, market-leading companies, which can lead to solid gains for investors with a long-term view.

Despite the challenging environment defined by high inflation and negative YTD returns for many investors, the news is not all bad, and we see a series of potential catalysts that could bolster equity markets during the fourth quarter. This includes the upcoming 3Q22 corporate earnings reporting "season" with quarterly financial results due in volume to begin later in October. S&P 500 earnings results for both 1Q22 and 2Q22 exceeded consensus expectations from Wall Street analysts (per FactSet). In addition, two headline measures of consumer inflation (the consumer price index, CPI, reported by the Bureau of Labor Statistics, BLS; and the personal consumption expenditure, PCE, price index, reported by the Federal Reserve) peaked on a year-over-year (Y/Y) basis in June 2022, and a fall retreat in prices for many commodities suggests the Fed could soon see the sustained decline in inflation that it is looking to achieve. In similar fashion, while the U.S. labor market continues to create new jobs (according to the BLS, through September, U.S. nonfarm payrolls have increased each month of 2022), the pace of both jobs and wage increases slowed in September, indicating that the U.S. economy could slow without necessarily spiraling into a recession. Finally, we see the completion of the 11/8/22 U.S. midterm elections as a potential market catalyst allowing both Congress and the Administration to address economic growth concerns in 2023 and 2024.

Third quarter and YTD market review. Major equity indices traded lower in 3Q22, following quarterly declines in 1Q22 and 2Q22 as well. Including dividends (total return), the S&P 500 declined -4.9% in 3Q22, dropped -16.1% in 2Q22, and decreased -4.6% in 1Q22. This was the first time the S&P 500 total return declined for at least three consecutive quarters in more than 13 years, when the index was negative for six quarters from 4Q07 to 1Q09 (during the Great Financial Crisis). For the nine months ended 9/30/22, the S&P 500 total return was -23.9%, and the large-company, technology-heavy Nasdaq Composite index total return was even worse at -32.0%. Small company stocks and foreign company indices, both in developed and emerging markets, also posted steep losses YTD, indicating that the 2022 bear market has been a global experience.



Source: FactSet, S&P 500 Daily Closing Prices 12/31/18 to 9/30/22

When the S&P 500 closed at 3,667 on 6/16/22 (which was still in the second quarter), the index established its low for the year at the time. But the S&P 500 rallied 9.1% (price return) in July, and after closing at 4,305 on 8/16/22, had gained 17.4% over eight weeks (recovering 56% of the market decline from 1/3/22 to 6/16/22). We attributed the rally off lows to improving mid-year trends in employment and inflation, and 2022 second quarter S&P 500 earnings that largely exceeded consensus expectations. This led to an emerging view that the Fed could pause its path of interest rate hikes sooner than expected, and potentially "pivot" to lowering interest rates in 2023 to boost the economy. However, in late August, Fed Chairman Jerome Powell spoke at the Kansas City Fed's Jackson Hole economic symposium and made it clear that rate hikes were likely to continue even if economic data weakened, effectively removing market expectations for a pivot. Equity market weakness resumed over the final weeks of the third quarter and on 9/30/22, the S&P 500 closed at 3,586, a new closing low for the year.

Market Valuation. Our S&P 500 fair value estimate of 3,900 represents a price-to-earnings (P/E) of 16.3x the 2023 S&P 500 FactSet consensus EPS estimate of $239. Our fair value estimate is not a 2022 year-end target, and represents a value that we believe can be achieved over the next twelve months, driven by an assessment of broad economic and earnings expectations as we look to 2023. Although the 2023 consensus EPS estimate has dropped -4% since the end of June, it still reflects 8.1% Y/Y growth (compared to the 2022 estimate). Given our view that current Fed policy (continued fed funds interest rates hikes) will slow employment and economic growth trends, along with resilient strength of the U.S. dollar (which reduces the value of foreign earnings when translated back to dollars), 2023 consensus S&P 500 earnings estimates appear high to us. If 2023 S&P 500 earnings remain positive, but grow only 3% to $228, our value reflects 17.0x that estimate. As of 9/30/22, the S&P 500 traded at 15.3x FactSet consensus earnings estimates over the next 12 months (forward price-to-earnings, or P/E), which is a 6.1% discount to the 16.3x average forward P/E since 2000 (a period of nearly 23 years). We attribute the lower P/E to the rise in U.S. interest rates that has seen the U.S. 10-year Treasury yield move to 3.80% on 9/30/22 from 1.51% on 12/31/21 (higher interest rates often lead to lower valuation multiples as higher rates reduce the present value of future estimated cash flows), as well as investor uncertainty regarding the trend of corporate earnings results given restrictive Fed policy. Over time, we view an average P/E multiple on forward earnings estimates as a reasonable assumption.

S&P 500 Next Twelve Months P/E

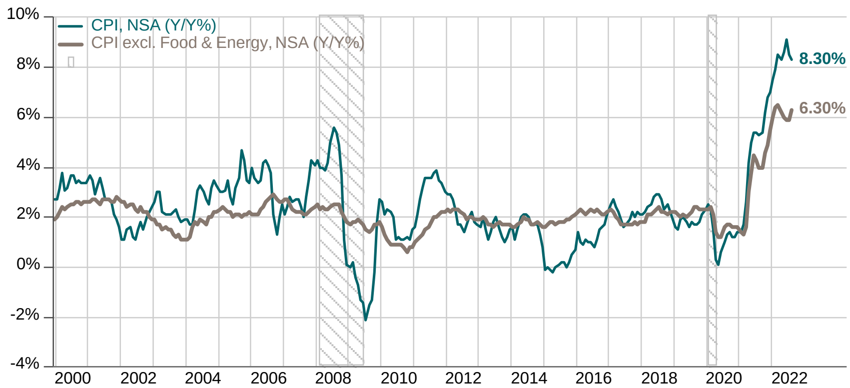
Source: FactSet as of 9/30/22. Daily index value divided by FactSet consensus EPS estimates.

The 2022 equity bear market continues. While market corrections (declines of -10% to -20%) happen relatively frequently (the S&P 500 experienced 15 corrections in the 13-year period from 2009 to 2022), bear markets, which we define as a peak-to-trough decline of more than -20%, are rarer events. We calculate nine S&P 500 bear markets from 1960 to 2021; including this year, that is 10 bear markets in 62 years, or one every 6.2 years. With the last bear market just two years ago in 2020, there has been a bear market in two of the past three years. Bear markets are painful for investors, as asset values decline and equity portfolios fall in value. On average, bear markets play out over a longer time period than do corrections. In the bear markets from 1960 to 2020, the average number of months from the market peak (pre-selloff) to the ultimate bottom (which is only known after the fact), or peak-to-trough, was 14 months. The range was wide, however, as 2020 took just one month to make a market bottom, while in the 2000 to 2002 market decline, the peak-to-trough drawdown lasted 30 months. When the S&P 500 closed at a new 2022 low on 9/30/22, it was a reminder that the bear market continues (we won't truly identify the trough of this bear market until the S&P 500 returns to its previous high set on 1/3/22), and that the 2022 bear market has entered its tenth month. In the previous nine bear markets since 1960, the average time period from the S&P 500 price trough (market low) to a new high was 27 months, but that range was wide as well, from just three months in 1982 to 67 months from the 1974 trough date.

While we don't know when the 2022 bear market will end, we see the potential for equities to rally from recent lows, much like we saw over the summer. As we discussed in market commentary notes earlier this year, when we analyzed the S&P 500 in previous bear markets from the point the S&P 500 reached a peak-to-trough decline of -22%, we found that one year later the index, on average, was 19.4% higher (positive returns in 6 of the 9 bear markets), and after three years the index was 29.0% higher on average (positive returns in 7 of 8 bear markets). Five years out from a -22% decline, all bear markets were higher with an average index gain of 53.5%. The 2022 bear market in the S&P 500 hit the "down -22%" level on 6/13/22. Our conclusion is to stay the course; while we expect ongoing volatility in equity indices as investors assess inflation expectations, economic growth challenges, and corporate earnings uncertainty, we believe significant equity market and valuation damage has already been done. In a volatile environment, we advocate building positions in high-quality, industry-leading companies, adding to positions during market and stock price weakness, and then rebalancing portfolios following bear market rallies. We continue to see many high-quality companies trading at attractive valuations.

Some relief in headline inflation, but core inflation proving to be sticky. The widely followed measure of consumer inflation (reported monthly by the BLS) Consumer Price Index (CPI) increased 8.3% year-over-year (Y/Y) in August (compared to August 2021), the second consecutive monthly Y/Y decline since peaking at 9.1% in June. While the trend in headline inflation is moving in the right direction, overall inflation remains elevated, creating budget challenges for American families. In addition to the headline inflation number, the BLS also reports several other inflation data points to give a more complete picture of pricing trends. This includes the month-to-month (M/M) inflation increase, which shows price changes from the previous month rather than the Y/Y comparison. The August 2022 M/M (vs. July 2022) CPI increased 0.1%. We like to compare the annualized (the monthly number multiplied by 12) M/M CPI to the Y/Y CPI to help identify the prevailing trend. On that basis, the three-month average of annualized M/M CPI was 6.0% in August (0.5% x 12) compared to the three-month Y/Y average of 8.6% (9.1% in June, 8.5% in July, 8.3% in August). This suggests that inflation trends are improving, and several CPI categories, while remaining higher Y/Y, have started to pull back. Through August, this included gasoline, other energy commodities, apparel, transportation, and recreation. On the other hand, pricing for shelter (rent and owners' equivalent rent) and medical care have increased, food prices remain elevated, and in recent weeks energy costs have resumed moving higher. We also watch "core CPI," which removes the impact of food and energy prices, as another tool to evaluate trends. While food and energy remain an essential component of household budgets, pricing over time can be volatile, which can distort the headline number. On that basis, the August report was disappointing as core CPI surged 6.3% Y/Y compared to 5.9% in July, and the August M/M number was 0.6% (or 7.2% annualized). This surge was attributed to the shelter and medical care components discussed above. While the recent weakness in the housing market (weak housing starts and home sales) is likely to translate to lower housing costs, it will take time (several months), in our view, to filter through to the CPI data. While we expect ongoing improvement in monthly reported inflation data, we believe that inflation is likely to remain well above the Fed's 2.0% long-term target throughout 2023.

Consumer Price Index (Monthly)



Source: FactSet, Bureau of Labor Statistics as of 8/31/22. The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. At the time of this writing, the September 2022 CPI report was due on 10/13/22. According to the FactSet consensus, headline CPI was estimated to increase 8.1% Y/Y and core CPI 6.5% Y/Y.

The Federal Reserve Bank's overnight fed funds interest rate target was 3.00% to 3.25% at the end of September. After admitting that inflation was more "sticky" than it believed one year ago (dropping the word "transitory"), the Fed finally began raising its overnight fed funds interest rate target in March 2022 by hiking 25 basis points (bp) to a range of 0.25% to 0.50%. The Fed's most recent Open Market Committee (FOMC) meeting concluded on 9/21/22, and the Fed raised the fed funds target by another 75bp. The fed funds target range of 3.00% to 3.25% is the highest level since January 2008, and the hike at the September meeting was the Fed's fifth consecutive interest rate increase and the third consecutive meeting with a 75bp move. While the rate increase was largely expected, Fed Chairman Jerome Powell indicated that the current target range is only now moving to a restrictive level, and that "ongoing increases will be appropriate." As the fed funds rate moves to higher levels, it is expected to remain there for "some time." Despite acknowledging that consumer spending, business investment, and housing data had weakened, Powell said the Fed is concerned that a tight labor market (more job openings than unemployed, according to BLS data) and strong wage growth (average hourly earnings, BLS, averaging more than 5% year-over-year) will make it difficult for inflation trends to moderate to a more comfortable level. Cooling the labor market (jobs and wages) appears to be the Fed's primary focus over the next several months. At the post-meeting press conference, Powell sanctioned expectations for 100bp to 125bp of additional fed funds rate hikes by the end of 2022 (there are two more FOMC meetings, November and December, scheduled this year). We view this as a more "hawkish" (tighter credit conditions driven by higher interest rates) stance, as the Fed appears committed to increasing short-term interest rates into 2023. In our view, the magnitude of expected Fed rate hikes over the next several Fed meetings adds to economic uncertainty in 2023, including the potential for a U.S. recession.

Following the September FOMC meeting, the Fed published its Summary of Economic Projections (SEP, often called the "Dot-Plot"), laying out the average estimates from all committee participants on a range of 2022 and 2023 economic data, including GDP growth, unemployment, and inflation. Last updated at the June FOMC meeting, and published quarterly (roughly every other meeting), the SEP provides the individual forecasts from more than a dozen (20 in September) FOMC voters on a range of economic projections over the next three years. The Fed publishes the mean estimate, as well as the range of estimates. The table below shows the median estimate as of 9/21/22, as well as the range of estimates for 2022 and 2023 U.S. gross domestic product (GDP) growth, the BLS unemployment rate, the headline PCE (consumer) inflation rate, and the end-of-year level of the fed funds rate. Among the most significant changes in the Fed's projections in September (compared to June) was a 2022 GDP estimate of just 0.2% compared to 1.7% in June, and a 2022 year-end fed funds rate projection of 4.4% from 3.4% in June. Given the current fed funds range of 3.00% to 3.25%, this confirms expectations for an additional 100bp to 125bp of hikes this year. As for the 0.2% GDP growth projection in 2022, the Fed clearly expects the U.S. economy to continue to slow, but the projection for a 3.8% unemployment rate in 2022 is only modestly higher than the 3.7% number in June, and PCE inflation is projected higher this year, 5.4% compared to 5.2% previously. However, if the unemployment rate rises to 4.4% in 2023, as projected, and PCE inflation drops to 2.8%, the Fed is likely to conclude, in our view, that its restrictive policy is having the desired effect. The question will be: what is the impact on the U.S.

economy? Using the Fed's 2023 unemployment rate projection of 4.4%, up from 3.8% in 2022, we calculate (using the size of civilian labor force in August 2022 from the BLS) a loss of nearly 1 million (988 thousand, or K) jobs projected in 2023, a rate of 82K monthly.

U.S. Federal Reserve Bank Summary of Economic Projections
Federal Open Market Committee (FOMC) as of 9/21/22

	2022-median	2022-range	2023-median	2023-range
U.S. GDP Growth	**0.2%**	**0.0%-0.5%**	**1.2%**	**-0.3%-1.9%**
Unemployment Rate	**3.8%**	**3.7%-3.4%**	**4.4%**	**3.7%-5.0%**
PCE Inflation	**5.4%**	**5.0%-6.2%**	**2.8%**	**2.4%-4.1%**
Year-end fed funds rate	**4.4%**	**3.9%-4.6%**	**4.6%**	**3.9%-4.9%**

Data Source: federalreserve.gov, as of 9/21/22. The Summary of Economic Projections is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

In 2022, we have often been asked the question: "When will the market bottom, and how low will it go?" While no one really knows the answer to that question, our view is that long-term equity investors should follow their investment plans, use market volatility to upgrade portfolio quality and diversification, and rebalance positions that become underweighted or overweighted relative to the model. We also see potential for a market rally before year-end, as investor expectations remain low (most investors, in our view, are expecting weak earnings and economic reports), creating an environment where positive surprises are likely to be well received. Catalysts for gains could include improving second half economic data (relative to the first half of 2022), better-than-expected 3Q22 earnings results, and the completion of the 2022 U.S. midterm elections. We believe that as long as the Fed continues raising short-term interest rates, however, investors will remain worried about economic growth, and, more importantly, the outlook for earnings growth in 2023. This could limit market upside over the near-term and lead to more selling after market rallies. Many investors believe that the market will make its ultimate low once the Fed completes its interest rate hiking process. According to the Summary of Economic Projections above, that could be sometime in early 2023 with a fed funds rate of 4.6%. However, our internal analysis of prior recessions and tightening cycles back to 1980 suggests the S&P 500 tends to rise six months prior to the Fed's reaching of the terminal rate (the level where the Fed holds the target rate). In that case, we could be in that six month window today. Others believe that the S&P 500 could bottom once the fed funds rate moves at or above the level of inflation. If headline inflation continues to move down on a Y/Y basis to a level of 4% to 5%, which we believe is possible over the next several months, that also suggests a potential cross over with the expected fed funds target in early 2023.

As for how low the S&P 500 can go, we believe that this will largely be determined by the strength of the U.S. economy and the resulting impact on corporate earnings. As we mentioned earlier, we believe that 2023 earnings estimates for the S&P 500 could trend lower than the 8.1% growth currently reflected in the FactSet consensus estimates. Our 3,900 S&P 500 fair value estimate contemplates 3% earnings growth in 2023, but what if earnings are flat in 2023, or even decline due to the onset of a recession? If we assume flat (zero growth) S&P 500 earnings in 2023 of $221, a 15.0x P/E multiple suggests an S&P 500 value of 3,300. If earnings decline -5% to $210, a 15x multiple yields a value of 3,150. A move into that range from 9/30/22 levels reflects downside of -8.0% (at 3,300) to -12.2% (at 3,150). While a downward move within this range would clearly be painful on top of losses already incurred, we believe that would lead to even more attractive valuation opportunities for long-term investors, and investor expectations for the end of Fed tightening, lower inflation, and economic recovery would remain in place. This is not our base case, however, as so far in 2022, corporate earnings have exceeded expectations, the labor market continues to create jobs, and consumer financial conditions are relatively strong. We caution against trying to "call" the market bottom, as rallies can happen at any time and generally the equity markets will rebound before the data does.

The 2022 U.S. midterm elections are just four weeks away. While politics remain polarized in the U.S., we do not anticipate many market-moving surprises from this year's election cycle, with voting day set for 11/8/22. Typically in midterm elections, the political party in power loses seats in the House of Representatives (House), Senate, or both. That is expected in 2022 as well. According to the website fivethirtyeight.com, which uses statistical analysis to forecast results of individual elections, the Republicans have a 71% chance of taking control of the House from the Democrats, and the Democrats have a 66% chance of retaining the Senate majority. This would result in a split Congress, making it more difficult to pass major legislation. In our view, this reduces the potential for either tax reform or major spending bills in 2023 and 2024, and a condition of "gridlock" could be a relief to financial markets.

We looked at the 13 U.S. midterm elections, held every four years, since 1970. We compared the closing price of the S&P 500 on 10/31 prior to Election Day, and then one year later on 10/31 of the year after the midterm election. The index was higher following all 13 midterms and the average percentage price gain was 15.1%. The range was a low one-year gain of 3.0% from 10/31/14 to 10/31/15 following the midterm in President Obama's second term, and was as high as 29.1% from 10/31/90 to 10/31/91 during the presidency of George H.W. Bush. In the one-year period following the most recent midterm election in 2018 (Trump administration), the S&P 500 gained 12.0%. While we are generally cautious about making market predictions based upon seasonal historical observations, and we are not doing that here, we believe there are valid potential drivers of market gains following the midterm election cycle. Midterm elections are often contentious (as evidenced by the incumbent party losing seats in the House or Senate), and leads to market and policy uncertainty. Once the election is over, both political parties have renewed incentive to "get things done" as they prepare for the next election cycle. This generally would be good for pro-growth economic policies, as strong growth trends are often associated with winning elections. Given the current weak economic trends in the U.S. in 2022, we expect support for pro-growth policies in 2023, which could drive a surge in investor sentiment. While a split Congress could be a limiting factor, we would not be surprised to see efforts to reduce regulation or streamline capital investment in areas including oil and gas production and refining, housing construction, and other infrastructure investment.

We also looked at the two-month period from 10/31 to 12/31 of the election year. S&P 500 returns were much less conclusive; while the S&P 500 over 13 midterm election cycles was, on average, 2.4% higher by year-end, five of the 13 periods were lower after two months. This included the 2018 midterm, when the S&P 500 dropped 7.6% from 10/31/18 to 12/31/18.

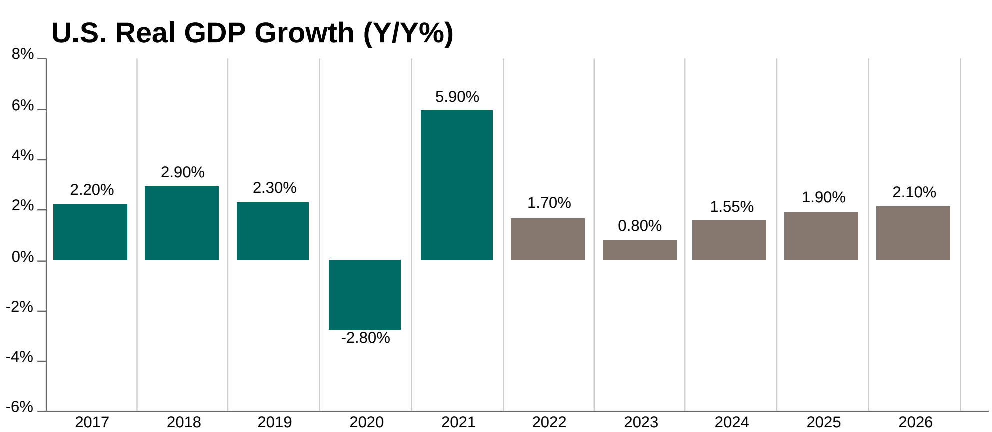
S&P 500 Performance Following Mid-Term Elections

Year of Mid-term Election	Sitting President	S&P 500 Return one year later (10/31 election year to next 10/31)	S&P 500 Return two months later (10/31 election year to 12/31 same year)
2022	J. Biden	?	?
2018	D. Trump	12.0%	-7.6%
2014	B. Obama	3.0%	2.0%
2010	B. Obama	5.9%	6.3%
2006	G.W. Bush	12.4%	2.9%
2002	G.W. Bush	18.6%	-0.7%
1998	B. Clinton	24.1%	11.9%
1994	B. Clinton	23.1%	-2.8%
1990	G.H.W. Bush	29.1%	8.6%
1986	R. Reagan	3.2%	-0.7%
1982	R. Reagan	22.3%	5.2%
1978	J. Carter	9.3%	3.2%
1974	G. Ford	20.4%	-7.3%
1970	R. Nixon	13.0%	10.5%
Average Annual Return Post Mid-terms		15.1%	
Average Two-Months Returns Post Mid-terms			2.4%

Data Source: FactSet using closing S&P 500 prices from exchange data, and D.A. Davidson. 1970 to 2022. As of 9/30/22.

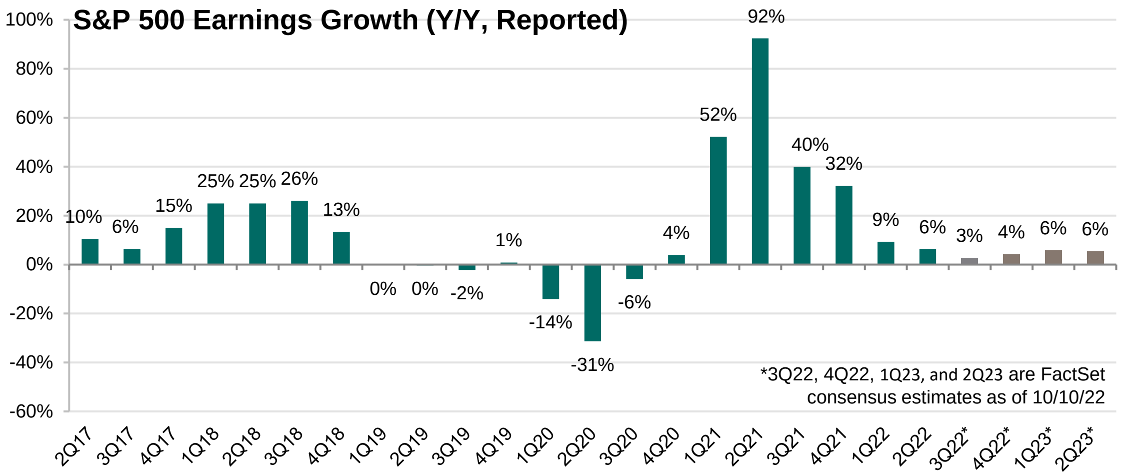
The U.S. economy contracted in the first half of 2022. According to the Bureau of Economic Analysis (BEA), U.S. gross domestic product (GDP) was -1.6% and -0.6% in 1Q22 and 2Q22, respectively. Although the U.S. has posted two consecutive quarters of negative GDP growth, we have not seen the erosion in corporate profits or increase in unemployment that we typically see in recession periods. We are watching that data closely, but according to the BLS, the U.S. economy created 263K net new jobs in the month of September and 1.1 million (M) in the third quarter (July, August, September), bringing the unemployment rate down to 3.5% to match the pre-pandemic lows. In September, for the second consecutive month total U.S. nonfarm employment exceeded February 2020 levels, concluding a 29-month period to recover all jobs (based upon total number of people employed) lost during the pandemic. While the total number of new jobs in 2Q22 matched the level in 2Q22, the September rate decelerated sharply and we expect that trend to continue through year-end.

In addition, while earnings estimates continue to be revised lower, 2Q22 earnings growth of 6% exceeded the pre-reporting 4% growth estimate. Consumer spending continues to favor services (travel, entertainment, medical services) away from goods, but has remained positive. At the same time, housing data (housing starts and new home sales) has weakened, several leading general merchandise retailers recently reduced their business outlooks as customers pare spending on discretionary items, and a major consumer confidence survey from the University of Michigan has plunged to multi-decade lows. When we break down major components of the quarterly 2Q22 GDP report (consumer spending, business investment, government expenditures, trade balance, and inventory adjustments), we see that both consumer spending and strong exports (goods produced in the U.S. and sold abroad) contributed positively to GDP, while business investment, housing, and government spending were negative. We believe that consumer spending trends will ultimately determine whether or not we fall into recession, and if so, how deep that recession will be. At this point, in our view, due to jobs and earnings strength, a possible recession is shaping up to be relatively mild, which could be ultimately bullish for equities if and when investors position for an economic rebound (perhaps in late 2023 or 2024). However, we continue to see volatility ahead, as economic data remains uncertain and visibility is limited. As of 10/10/22, the FactSet consensus for U.S. GDP growth is positive in 3Q22 (+1.4%) and 4Q22 (+0.7%), but dips negative again in 1Q23 (-0.3%). The Fact Set consensus estimate for S&P 500 earnings growth is positive in 3Q22 (+3%), 4Q22 (+4%) and 1Q23 (+6%).



U.S. Quarterly Real GDP Actual / Estimates (Q/Q%)	
1Q22A	-1.6%
2Q22A	-0.6%
3Q22E	1.4%
4Q22E	0.7%
1Q23E	-0.3%

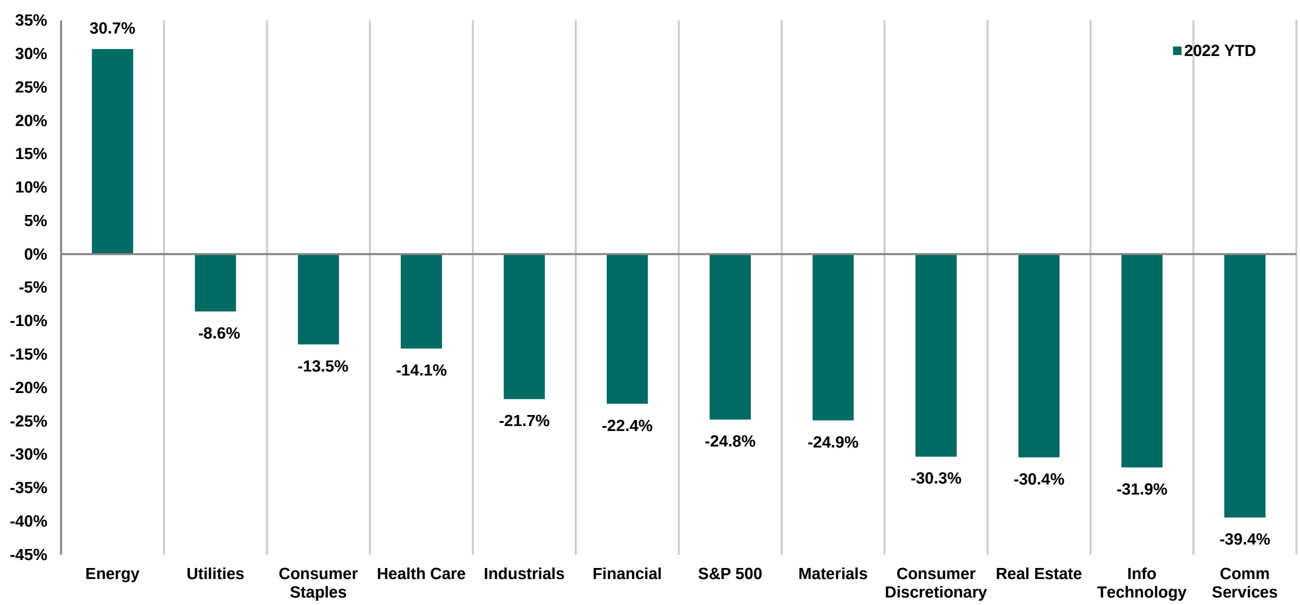
Data Source: FactSet consensus estimates and Bureau of Economic Analysis, as of 10/10/22 (green are actual reported numbers)



Data source: FactSet as of 10/10/22, earnings estimates are compiled by FactSet from Wall Street analyst estimates. Graph measures S&P 500 earnings growth (weighted average of all S&P 500 earnings results based upon market capitalization) of each quarter compared to the same quarter in the prior year.

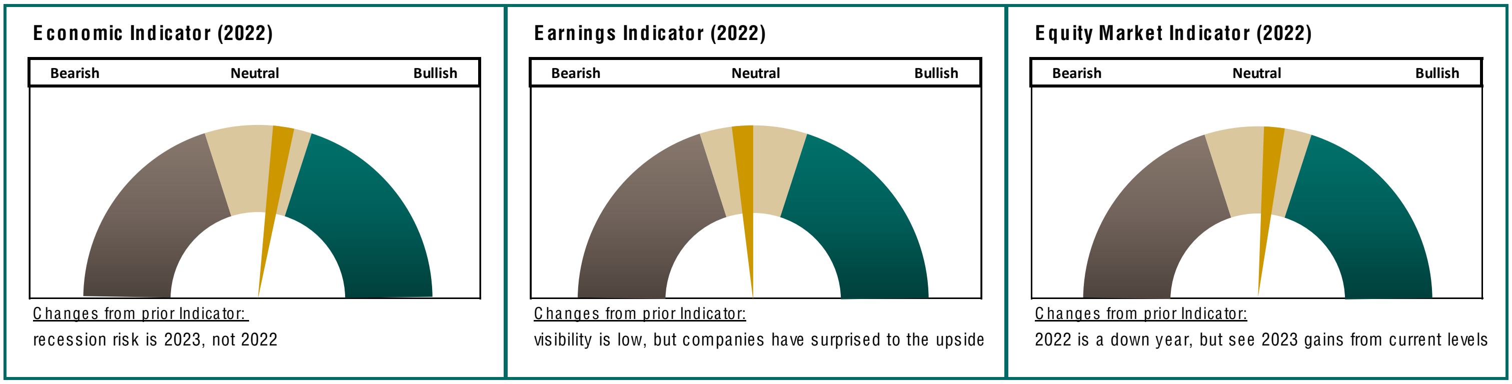
Energy is the only S&P 500 sector to post price gains YTD. The chart below shows the S&P 500 price performance (not including dividends) for the nine-month period from 12/31/22 to 9/30/22. While the chart underscores what a difficult year 2022 has been across the board, it also highlights, in our view, the relative importance of sector diversification. First is the standout performance of the Energy sector, gaining an impressive 30.7% YTD. This was a sector all but forgotten from 2018 to 2020, as it was the worst performing sector for three consecutive years, but has now led all sectors gains in 2021 and 2022 (through September). After Energy, Utilities, Consumer Staples, and Health Care declined YTD, but performed much better than the index on a relative basis. These are traditionally “defensive” sectors, representing companies that should be less exposed to economic cycles. This is an indication that many equity investors have positioned for an economic downturn that includes a recession. At the other end of performance, the largest quarterly declines came from Communication Services, Information Technology, Real Estate, and Consumer Discretionary. With the exception of Real Estate, each are heavily weighted with technology-centric, large-company growth stocks, many of which have led market gains over the past few years. These stocks have suffered in 2022 as investors became more disciplined in how much they were willing to pay today for future growth in revenue and earnings. We attribute weakness in Real Estate Investment Trusts (REITs) first to economic growth concerns impacting investment markets in general, but also to rising interest rates, which can lead to pockets of price declines in REITs, which pay dividends to investors. It is also possible that some REIT investors with a focus on dividend income have reduced REIT positions as yields have risen in other securities, such as government or corporate bonds. We continue to advocate for sector diversification, as leadership can shift at any time. While defensive sectors are likely to remain a safe haven during an extended period of economic uncertainty, valuations have become more attractive for many companies within these underperforming sectors and see the potential for outsized gains in more cyclical sectors as investor sentiment improves.

S&P 500 Sector Performance – 2022 YTD Price Returns (12/31/22 to 9/30/22)



Data source: FactSet as of 9/30/22, S&P 500 GICS sector indices maintained by S&P Global & MSCI

Wealth Management Research Investment Cycle Gauge



Source data: D.A. Davidson & Co. as of 10/12/22

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Important Disclosure: Information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of the data available to us at the time of the original publication of the report. These opinions are subject to change at any time without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return, and yield. Investors should also remember that past performance is not necessarily an indicator of future performance and D.A. Davidson & Co makes no guarantee, expressed or Implied to future performance. Investors should consult their Financial and/or Tax Advisor before implementing any investment plan.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance (on a total return basis) assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publically traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The NASDAQ Composite Index measures all NASDAQ domestic and international based common type stocks listed on The NASDAQ Stock Market. Today the NASDAQ Composite includes over 3,000 companies. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. The Bloomberg Commodity Index is a broadly-diversified commodity price index that tracks the prices of futures contracts on 23 physical commodities across 6 sectors. The Barclays U.S. Aggregate Bond Index is a broad-based, market cap-weighted bond market index representing intermediate-term, investment-grade bonds with an outstanding par value of at least $100 million and at least one year until maturity.

Other Disclosures:

The forward S&P 500 price-to-earnings ratio (P/E) is a valuation measure, calculated by dividing the price of the S&P 500 index over the weighted average earnings per share (EPS) estimate of each company in the index. Earnings are based on "forward" consensus estimates expected over the next 12 months (NTM), using quarterly analyst estimates as provided by FactSet.

Fair value refers to a valuation method based on our view of the intrinsic value of an asset or index, determined by macroeconomic factors and earnings expectations rather than current market prices. This is our view of intrinsic value as of the date of this report.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. U.S. Real GDP (adjusted for inflation) is reported quarterly (on a quarter to quarter, seasonally adjusted annual basis) by the Commerce Department's Bureau of Economic Analysis.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet Consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

The annual price returns of the S&P 500 index are calculated using index closing value on 12/31 of one year to 12/31 of the next year. 2022 returns are calculated as of 9/30/2022, although some charts used a date in early October. Intra-year peak-to-trough percentage declines are calculated using the index closing prices from an intra-year high date to a subsequent low date. Closing prices are provided by S&P Global through FactSet. Averages across years are calculated using the arithmetic mean.

The yield of the 10-year U.S. Treasury bond is a widely followed barometer of the current U.S. interest rate environment.

Treasury bond data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.

S&P 500 earnings growth reflect the year over year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members--the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The term "monetary policy" refers to the actions undertaken by a central bank, such as the Federal Reserve, to influence the availability and cost of money and credit to help promote national economic goals. The Board of Governors of the Federal Reserve System is responsible for the discount rate and reserve requirements, and the Federal Open Market Committee is responsible for open market operations. The Federal Reserve influences the demand for, and supply of, balances that depository institutions hold at Federal Reserve Banks and in this way alters the federal funds rate. The federal funds rate is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury bonds, indicating the relationship between the interest rate and the time ("term") to maturity.

The Federal Reserve Summary of Economic Projections (Dot-Plot) is sourced from federalreserve.gov, as of 9/21/22. Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE). Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The Summary of Economic Projections or "Dot Plot" is compiled from Federal Reserve Board members and Federal Reserve Bank presidents.

U.S. Personal Consumption Expenditures (PCE) is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis.

Consumer data includes: The Advance Monthly Sales for Retail is a survey of 5,500 employer firms by the U.S. Census Bureau. Its statistical analysis from the respondents is weighted and benchmarked to represent the complete universe of over three million retail and food service firms, as well as personal consumption expenditures from the Federal Reserve Bank.

Housing Starts (Monthly New Residential Construction) are reported by the U.S. Census (census.gov) and the Department of Housing and Urban Development measure new residential construction. The report measures building permits, construction starts and construction completions for single family and multi-family (apartments) homes, at a seasonally adjusted annual rate.

New Home Sales (Monthly New Residential Sales) are reported by the U.S. Census (census.gov) and the Department of Housing and Urban Development. The data reports sales of single-family houses at a seasonally adjusted annual rate, and also measures sales price and the inventory of new houses for sales.

Consumer Confidence is measured in the University of Michigan's Survey of Consumers. Data is collected in a monthly survey encompassing 50 core questions to measure consumer attitudes and expectations.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity.

The consumer price index (CPI) is a measure of average change over time in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

The National Bureau of Economic Research (NBER) is a private non-profit research organization. The NBER is widely used as an organization that analyzes U.S. economic data and the business cycle and determines the start dates and end dates of economic recessions. The NBER looks for "a significant decline in economic activity that is spread across the economy and lasts more than a few months;" and also looks at the depth, diffusion, and duration of the downturn.

We define "Defensive Sector" as sectors whose constituents are companies that are generally less exposed to changes in the business cycle, and thus have less volatility in revenue and earnings. Traditionally we view Consumer Staples, Utilities, and Health Care as defensive sectors, although some companies in these sectors are less defensive than others, and some companies in other sectors have defensive qualities as well.

China's Zero-Covid policy refers to the country's strategy to fight and eradicate COVID-19 outbreaks that began in late-2019. The policy involves extensive lockdowns and testing when outbreaks are detected in urban areas.

The election forecasts summary from fivethirtyeight.com were updated on 10/12/22, https://projects.fivethirtyeight.com/2022-election-forecast/