D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 10/3/22: Cautious Outlook Entering Q4

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	3,585.62	-2.91%	-5.28%	-24.77%	-16.76%	4,796.56	33.8%
Dow Jones Industrial Average	28,725.51	-2.92%	-6.66%	-20.95%	-15.12%	36,799.65	28.1%
NASDAQ Composite	10,575.62	-2.69%	-4.11%	-32.40%	-26.81%	16,057.44	51.8%
Russell 2000	1,664.72	-0.89%	-2.53%	-25.86%	-24.48%	2,442.74	46.7%
MSCI EAFE (USD)	1,661.48	-1.57%	-10.01%	-28.88%	-27.17%	2,398.71	44.4%
MSCI Emerging Markets (USD)	875.79	-3.32%	-12.48%	-28.91%	-30.11%	1,444.93	65.0%
Bloomberg Commodity Index	111.49	-0.81%	-4.75%	12.42%	10.65%	237.95	113.4%
Barclays U.S. Aggregate Bond	87.71	-1.06%	-5.31%	-16.25%	-16.86%	112.07	27.8%

Source: FactSet

Investor sentiment collapsed closing out the third quarter of 2022 (3Q22), driving major equity indices to new cycle lows. The widely-followed, large-company S&P 500 index posted losses for three consecutive weeks in September, closing at 3,586 on 9/30/22, the lowest closing price to date in 2022. This brought the September S&P 500 price decline to 9.3%, which marks both the worst calendar month performance for the index in 2022, and the largest monthly decline since March 2020. All eleven S&P 500 macro sectors (Global Industry Classification Standards - GICS) were lower for the month, indicating a broad-based selloff, and seven of the eleven sectors posted declines that exceeded the broad index, led by Real Estate -13.6%, Communications Services -12.2%, and Technology -12.0%. The best performing sector for the month was Health Care with a -2.7% decline, suggesting some recent downside protection from a “defensive” sector. Defensive sectors are generally thought to include companies that can deliver more consistent results during economic downturns, but two other defensive sectors, Utilities and Consumer Staples, decreased 11.5% and 8.3%, respectively in the month. In our view, this reflects elevated uncertainty entering the fourth quarter of 2022 as investors fear that increasingly restrictive Federal Reserve Bank (Fed) monetary policy (higher short-term interest rates) will push the U.S. economy into a recession. Economic and corporate earnings concerns have weighed on equity market valuations throughout 2022 and the S&P 500 has posted declines in each of the year’s three quarters. As of 9/30/22, the S&P 500 decreased 24.8% (price return, not including dividends) year-to-date, with four sectors down more than 30% in 2022 (Communications Services, Technology, Real Estate, and Consumer Discretionary). While the S&P 500 peak-to-trough decline (from 1/3/22 to 9/30/22) of 25.2% is not as severe as the 2020 peak-to-trough decline (from 2/19/20 to 3/23/20) of 33.9%, the 2022 market decline has now extended for nine months, compared to just one month to the low in 2020. We look for continued volatility in 4Q22, with potential S&P 500 rallies from recent lows met by selling pressure caused by ongoing uncertainty.

As 4Q22 begins, investor expectations are low and we believe equity markets are pricing in a weak outlook for economic growth and earnings. Given the low outlook, markets could rally as data is reported, unless results fall short of expectations. According to data provider FactSet (who compiles earnings estimates and economic forecasts from Wall Street analysts and economists), the consensus estimate for 3Q22 U.S. growth in gross domestic product (GDP, the value of goods and services produced) is 1.5%. This estimate was 2.3% at the end of June, and has trended lower, but would be an improvement from -1.6% and -0.6% GDP declines in 1Q22 and 2Q22, respectively. Similarly, the FactSet consensus for 3Q22 S&P 500 year-over-year (Y/Y) earnings growth is 3.3%, down from 10.7% estimated for 3Q at the end of June. With the bulk of earnings reports beginning in mid-October, we expect the data to be closely watched.

The Fed has clearly stated its view that it wants to see cooling in the labor market to confirm an easing of inflation pressures. The Bureau of Labor Statistics (BLS) will report the September jobs data on 10/7/22, with consensus expectations of a 250 thousand (K) gain in non-farm payrolls (compared to 375K in August). Many investors are concerned that recent trends of monthly job gains will reverse, but that is not expected in September. Average hourly earnings (wages) are estimated to increase 5.2% Y/Y, matching the August increase. We believe the Fed will look for lower wage growth.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

Please refer to page 2 of this report for detailed disclosure information.

Important Disclosure: The 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 data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change 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, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

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 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 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 S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. 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 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.