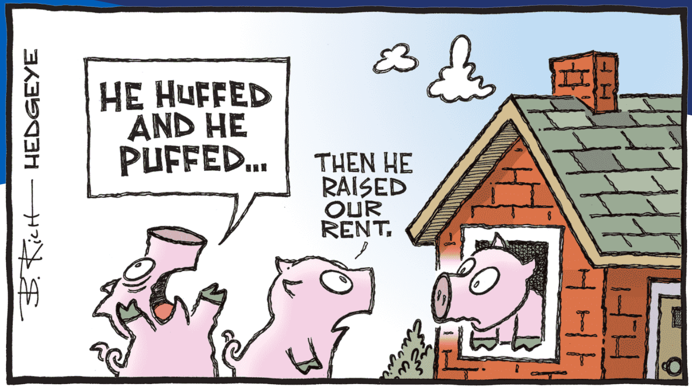
9-Month Market Review

(as at September 30, 2022)



Persistent Inflation – Possible Recession.

Latest Developments

US inflation was projected to have peaked in August. It didn't. This unexpected statistic prompted central bankers to increase interest rates more rapidly than anticipated, resulting in turbulence in the financial markets. The July recovery was erased in September, and then some.

Rapidly Rising Interest Rates – Bear Market for Equities

- Central banks across the globe – led by the US Federal Reserve ("the Fed") – are raising interest rates aggressively. The Fed has recently announced its third consecutive 0.75% interest rate rise and signalled further increases over the coming months.
- Some central banks have raised rates by a full 1.0%.
- Major stock indexes were down between 5% and 10% on the quarter and down between 25% and 30% year to date ("YTD"), remaining in a "Bear Market".
- Bonds, which usually cushion a decline in stocks, acted as a tailwind instead. US core bonds also declined further by 5% QTD and 14% YTD.
- Policymakers have been clear that interest rates will continue to increase until inflation is curtailed. In late August, Fed Chair Jay Powell commented: "We must keep at it until the job is done".
- Rising interest rates and a sense of uncertainty have moved funds into the US dollar as a safe haven. The dollar has strengthened 14% relative to the Euro, 18% relative to the Pound and 26% relative to the Yen.

What this Means

- Rising rates constrains economic activity. In other words, as the cost of borrowing increases economic activity will slow.
- A recession seems likely and may be what is required to lower inflation.
- These two challenges of inflation and a looming recession are tormenting major economies outside of the US.
- The European Central Bank is likely to continue to increase borrowing costs to combat record eurozone inflation. Russia's invasion of Ukraine is squeezing natural gas supplies to Europe, driving prices higher. This negatively affects household spending and significantly increases the likelihood that the region falls into a recession.
- It is unclear exactly how high interest rates will have to go to quell inflation. It is clear that central banks intend to raise rates until it is sorted.
- It's unknown just how much slowing down of the economy will be required. This degree of uncertainty heightens the likelihood that stock markets may remain under stress.

ARGUS
Our Interest is You.