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The economic and investment story through three quarters of 2022 can be summarized as a period of global challenges. Slowing economies, elevated inflation pressures, aggressive monetary policies, recession fears, currency imbalances, energy shortages, and a prolonged war in Ukraine have fueled pessimistic conditions in the U.S. and abroad.

As a result, financial markets have been on a roller coaster ride. The latest quarter provided an example of the increased short-term volatility as the S&P 500 Index experienced closing price movements of at least 1.00% up or down on thirty (30) individual trading days. The choppy movements back and forth left investors with no clear picture of where the markets are headed.

A summer rally for equites did provide investors with a glimmer of hope but those dreams faded quickly, and positive momentum gave way to uncertainty and a return to bear market conditions. The breadth of negative returns meant investors had no shelter from the 3rd Quarter storm as stocks, bonds, commodities, and real estate all ended the period with losses. Unfortunately, the 2022 total return numbers through the 3rd Quarter still reflect significant declines in most areas. See the bond and stock index return numbers below.

Bond and Stock Index Total Return January 2022 - September 2022		
Sector	**Index**	**Return**
Short-Term U.S. Bond	Bloomberg 1-3 Year Treasury	-4.52%
Intermediate-Term U.S. Bond	Bloomberg Interm Treasury	-8.70%
Long-Term U.S. Bond	Bloomberg Long-Term Treasury	-28.84%
Inflation Protected Bond	Bloomberg Treasury TIPS	-13.61%
Domestic Large Company	Dow Jones Industrial	-19.72%
Domestic Large Company	S&P 500	-23.87%
Domestic Small Company	Russell 2000	-25.10%
Domestic Large/ Information Tech.	NASDAQ	-32.00%
Developed International	MSCI EAFE	-27.09%
Emerging Markets	MSCI EM	-27.16%
Real Estate/REITs	DJ U.S. Select Real Estate	-29.32%
Source: Morningstar		

Positive returns were scarce during the first nine months of 2022 and limited to cash, energy, and commodities.

Elevated inflation continued to be a major headwind for the domestic economy, and slower Gross Domestic Product (GDP) was reported for the second consecutive quarter (-1.6% in QT1 and -0.6% QT2). The decrease in GDP reflected decreases in private inventory investment, residential fixed investment, and spending by federal, state, and local governments.

The Federal Reserve's most recent Beige Book report confirmed economic data and conditions varied across some districts with slowing or weak demand being attributed to higher interest rates, inflation, and supply disruptions. The Fed also stated that overall labor market conditions remained tight, price growth remained elevated, discretionary spending was lower, manufacturing activity was steady, travel and tourist activity rose, transportation activity was mixed, housing market activity was weaker, residential real estate lending declined, drought conditions were causing agriculture challenges, and concerns about weaker demand were growing.[1]

The Fed continued to battle the inflation monster during the recent quarter with its ultra-aggressive monetary policy tightening strategy. The third straight increase of 0.75 basis points for the federal funds rate was implemented by the Federal Open Market Committee (FOMC) in September to bring the 2022 increase up to 3.00% (fastest rate hike cycle in modern history). In addition, the FOMC planned to reduce its balance sheet holdings further and monitor a wide range of incoming information for implications on the economic outlook. As conditions evolve, they are prepared to adjust monetary policy as needed to attain their goal of maximum employment and returning inflation to a two percent long run objective.

The economic picture is not as strong as we have grown accustomed to in previous periods, and there are many reasons to have a pessimistic outlook. Short-term, we think the current economic and financial rough patch will linger, and we believe inflation data will act as a key driver for the duration of instability. The Fed has been clear and unwavering with their message about inflation. Investors should expect a continuation of rate hikes to bring down inflation at the cost of decelerating growth. We expect to see two more substantial rate hikes this year at the November and December meetings, which will likely result in additional volatility and uncertainty. Despite negative domestic conditions, we are eternal optimists, and we consider the financial health of consumers a tremendous asset that can be an economic life preserver until more favorable conditions return. The cumulative impact of the 2022 rate hikes will eventually stifle inflation, and we believe the markets will react favorably as the information lag in the economic data catches up. Looking at a longer-term horizon, we think falling economic indicators will have a positive effect on a potential recessionary environment. Common sense says that it is harder to get injured when you only fall a short distance, and we believe these softer conditions will make the upward transition in the economic cycle easier.

The impact of falling asset prices on investor portfolios is always a challenge, and significant declines are a test of internal fortitude. It is easier to sit on the sidelines in times of market uncertainty, but not staying in the game means an investor could potentially miss out on a significant recovery that often follows tumultuous periods. History has shown bear markets eventually turn into bull markets that achieve new highs, and there is no reason to believe it will not happen again. While no one can predict how low markets will fall or when they will start climbing again, the current situation tends to lead us to the assumption that a good portion of the negative economic news has already been priced into the financial markets. This doesn't mean prices won't go lower on new data, only that we are optimistic that the current news won't impact us further.

The best advice in volatile times is to focus on what you can control. That starts with the creation of an investment plan that fits needs and risk tolerances using diversified investments. Managing emotions and separating your money from your moods can be a difficult task when markets are falling, but successful long-term investors look beyond the headlines and stay patient and disciplined through market swings. As I have often stated, our investment philosophy remains based on the fundamentals. ***We believe it is time---not timing---that matters most.***

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[1] Source: Federal Reserve System, Monetary Policy Beige Book Report, October 19, 2022.
https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20221019.pdf

The table below provides some interesting data for investors to consider regarding bear market recoveries. Significant returns are not guaranteed but are often the reality years after a bear market ends.

S&P 500 Index - Bear Market History				Recovery		
				Cumulative Returns After Bear Market End		
Start	**End**	**Duration (Months)**	**Percent Change**	**1 year**	**3 year**	**5 year**
May-46	Jun-49	37	-29.10%	34.4%	117.9%	185.2%
Aug-56	Oct-57	15	-21.60%	30.0%	44.5%	63.1%
Dec-61	Jun-62	6	-28.00%	31.2%	69.2%	94.8%
Feb-66	Oct-66	8	-22.20%	21.0%	33.5%	38.8%
Nov-68	May-70	18	-36.10%	34.8%	50.6%	44.2%
Jan-73	Oct-74	21	-48.20%	26.1%	42.0%	74.3%
Nov-80	Aug-82	20	-27.10%	43.9%	81.2%	238.6%
Aug-87	Dec-87	3	-33.50%	16.8%	48.8%	109.0%
Mar-00	Oct-02	31	-49.10%	20.8%	43.7%	91.5%
Oct-07	Mar-09	17	-56.80%	49.8%	88.0%	114.2%
Feb-20	Mar-20	1	-33.90%	56.4%	???	???
Jan-22	?	9	-23.87%	???	???	???
	Average	**16**	**-35.10%**	**33.2%**	**61.9%**	**105.4%**
Data as of 9/30/2022. Source: FactSet, S&P Dow Jones Indices, Dimensional Fund Advisors. **Past performance is not an indicator or guarantee of future results.**						

The cast of characters in the world of global economic risks continues to be lengthy. We consider the inflation situation, Federal Reserve interest rate hikes, and the impact of recessionary expectations as significant economic headwinds. Results from the upcoming mid-term elections are eventful politically, but history suggests the impacts are less meaningful compared to the full economic cycle. Additionally, we are closely monitoring the following: the war in Ukraine, labor market imbalances, fiscal policy uncertainties, currency imbalances, energy and commodity price shocks, political disfunction, extreme weather events, natural disasters, cyberattacks, terrorism, and escalating geopolitical tensions. We are proceeding with a watchful eye and cautious optimism for the global economy and financial markets despite the recent turbulence and uncertainty.

The beautiful colors this time of year are a reminder that 2022 will be coming to an end soon and it is time to start considering some year-end tax planning. See the list below to identify some common strategies that can help reduce your tax bill.

- Make gifts to reduce the size of your estate. Favorable Federal Estate and Gift Tax exemptions are still in place, but they are set to expire in 2025.
- Contribute the maximum amount to retirement plans.
- Contribute to a 529 Plan.
- Defer or accelerate income and expenses.
- Gift appreciated property.
- Maximize the itemized deduction benefit through additional charitable gifts.
- Volatile markets provide good opportunities to manage investment gains and losses.

- Monitor tax liability estimates and adjust withholding/estimated tax payments to avoid underpayment penalties.
- Consider a Health Savings Account (HSA) if you participate in a high deductible health insurance plan. Allows pre-tax savings to pay for qualified medical expenses.
- Complete your Required Minimum Distribution (RMD) if applicable.
- Consider a Qualified Charitable Deduction (QCD) from your IRA.
- Consider converting traditional IRA assets to a Roth IRA.

A financial check-up is a great way to evaluate your financial health, highlight adjustments needed, and develop and implement a plan for success. If you would like to discuss changes to your financial situation, year-end tax planning strategies, or have any questions, please contact our office.

As the fall months progress, we want to wish you and your family good health. We also want to say a special thank you for the opportunity to work with you and for being a valued client. Your continued confidence and trust in William Howard and Co. is appreciated.

With kindest personal regards, I am

Very truly yours,

WILLIAM HOWARD & CO. FINANCIAL ADVISORS, INC.

Bill

William B. Howard, Jr., ChFC®, CFP®

WBH/bdb

Enclosures: Index Performance and U.S. Economic Data
WHC Performance Statement

2022 Total Return Index Performance			
Asset Class	**Index**	**3rd Qtr.**	**YTD**
Cash	BofA/ML Three-Month U.S. Treasury	0.46%	0.61%
U.S. Bonds	Barclays Intermediate-Term Treasury	-3.08%	-8.70%
U.S. Large Co. Stocks	S&P 500	-4.88%	-23.87%
U.S. Small Co. Stocks	Russell 2000	-2.19%	-25.10%
International Stocks	MSCI EAFE (net div.)	-9.36%	-27.09%
Real Estate	DJ Select Real Estate Securities Total Return	-10.37%	-29.32%
Source: Morningstar			

U.S. Economic Data	
GDP	0.6% decrease (annual rate) – 2nd Quarter 2022
Inflation	6.6% CPI (less food and energy) and 8.2% CPI (all items) over last 12-months ending September (Energy index up 19.8%; Food index up 11.2%).
Interest rates	Federal Funds Rate range = 3.00 – 3.25%. Three consecutive 75 bps increases (June, July, and September).
Jobs	September 2022 data - Unemployment at 3.5%; non-farm payroll employment rose by 263,000 jobs; Labor force participation rate 62.3%; Moderate pace in demand for workers continued despite concerns of economic downturn. Wage growth remained widespread.
Manufacturing	Manufacturing activity grew for the 28th consecutive month; September ISM Manufacturing Index registered at 50.9% (lowest since May 2020); near-term demand was solid; hiring activity slowed in areas; supplier delivery improved; price growth slowed; lead times eased for capital equipment and production materials.
Business Spending	Private non-residential investment improved further; New durable goods orders decreased 0.2% in August (down two consecutive months).
Corporate Profits	2nd Quarter 2022 - U.S. corporate profits increased 4.6%. S&P 500 operating earnings per share = $46.87 (one-year decrease of 9.95%).
Housing	August 2022 year-over year data - New home sales down 0.1%; Existing home sales fell 19.9%; Median sales price of existing homes declined to $389,500 from the all-time high, but still up 7.7% over last year; Housing starts declined 0.1%; Building permits fell 14.4%; Housing inventory remained stable; Unsold inventory = 3.2 month supply; MBA fixed 30-yr mortgage rates = 6.52% ending 9/28/2022.
Consumer Spending	Disposable income remained weak; Consumer Confidence Index improved for the second consecutive month; Retail and food services sales increased; Total vehicle sales improved; Personal durable spending was flat while nondurable spending trended lower; Personal savings rate remained at a low level.
Energy	Oil price (West Texas Intermediate) = $79.91/bbl – 09/30/2022 (2022 increase of 6.08%); Gas price (U.S. average regular unleaded) = $3.711/gal – 09/26/2022 (2022 increase of 13.31%)