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J|M BROWN FINANCIAL PARTNERS

Weekly Market Commentary
September 26th, 2022

The Fed Strikes Again With Another .75% Increase…

The Fed was firmly in the driver's seat for the markets this week, with the stock market recoiling and interest rates moving higher as investors digested the prospects for more aggressive rate hikes ahead as part of the Fed's mission to bring down elevated inflation. Here are three quick observations.

1. The Fed hiked its policy rate by another 75 basis points (0.75%) and raised its outlook for potential additional hikes ahead.
2. The stock market revisited bear-market territory, giving back summer gains.
3. Interest rates rose to their highest in more than a decade.

On the surface, the conditions above probably don't instantly inspire a positive response; however, history, an assessment of key factors, and a broader perspective offer a more favorable outlook. Market pullbacks are never comfortable, and this renewed market weakness may have you feeling anxious about the road ahead. But we'd note that the conditions behind last week's developments provide worthwhile reasons for investors to be optimistic about what comes next.

Fed hiked rates by 75 basis points (0.75%)

What changed?

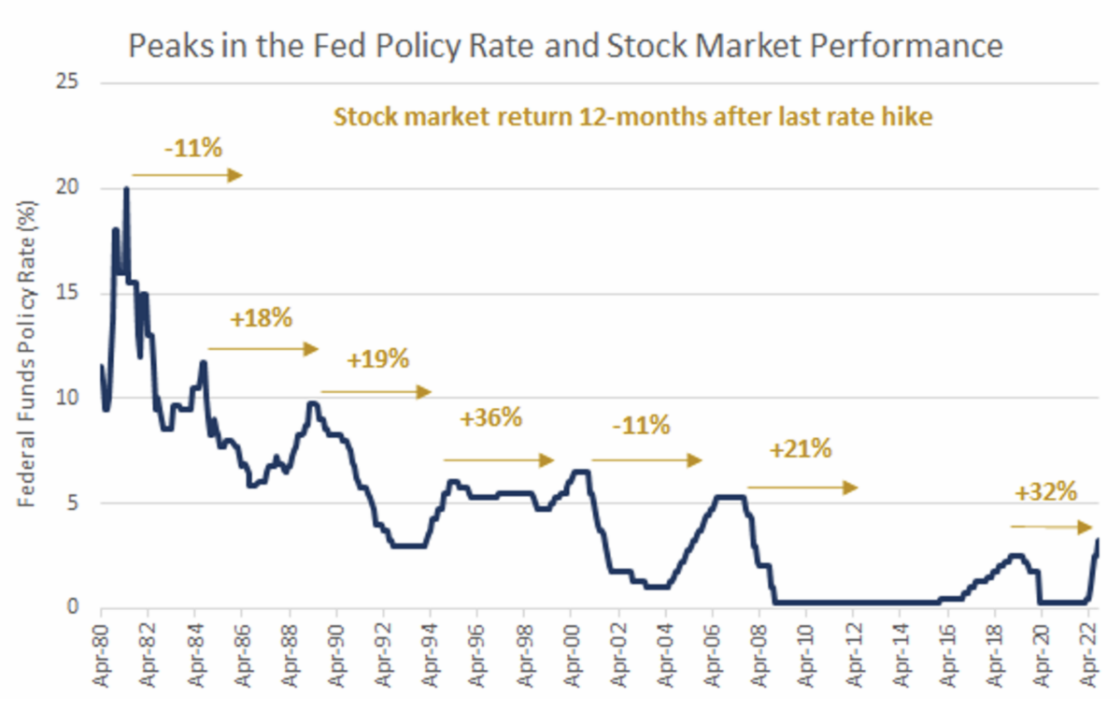
• Last week's 75-basis-point rate hike from the Fed was widely anticipated, but stocks moved lower in response to the Fed's comments on its outlook for further policy tightening.
• The Fed expects to keep rates higher for longer in an effort to break the back of current elevated inflation. What became clearer last week is that the central bank appears willing to exert some pain on the economy in its fight against rising consumer prices. The Fed was previously seeking to thread the needle of lower inflation and ongoing economic strength, but the latest commentary reflects a view that a meaningful slowdown in the economy is

needed for inflation to decline to a comfortable rate.
• Market expectations quickly shifted, with an expectation that the fed funds policy rate will now peak north of 4.5%, leaving more than another full percent of rate hikes ahead.
• The Fed moved the goalposts on upcoming rate hikes, catching the markets off guard and increasing fears of recession. Our economic forecasting model has pierced the threshold that has historically signaled a recession, which looks increasingly likely to us as the impacts of tighter monetary policy work their way through the economy. This does not, however, mean an eventual recession has to drive further downside, as markets are already pricing in a recessionary outcome.

What comes next?

• While monetary-policy tightening phases can be painful for stock- and bond-market returns, we are closer to the end of the Fed's current campaign than the beginning. Historically, when the Fed's policy rate peaks, market performance is quite strong in the 12- and 24-month periods that follow.
• Moreover, it's the earlier portion of the rate-hiking phase that produces the most negative market performance. As the table below shows, returns are often slightly favorable during the final few rate hikes, with the market then looking ahead to a shift toward a less restrictive phase of monetary policy.
• This is not the complete end of Fed-driven volatility, but we think the Fed deliberately put a particularly hawkish (restrictive) flag in the sand last week to prove its commitment to reining in inflation. We think this has shifted market expectations to become highly pessimistic, but with a silver lining: Fed expectations now seem to be set closer to a "worst case" outcome, which we think can support a rebound if and when such a case proves less likely.
• Moderating inflation will provide the Fed with some flexibility in the months ahead, meaning it may not have to tighten as aggressively as last week's reaction suggests. The Fed typically shifts to a more accommodative stance as economic conditions weaken. Thus, signs of a recession, while unwanted, could enable the Fed to pivot in 2023, which we think would be a positive for market performance.

Rate hikes are a headwind for markets, but stocks often perform well as the Fed policy rate peaks.



Source: FactSet, the S&P 500 is an unmanaged index that cannot be invested in directly. Past performance is no guarantee of future results.

This chart shows the peak in Fed policy rates and corresponding market returns 12 months after. Markets tend to perform well after the last Fed rate hike.

Stock Market Performance						
		Stock Market Performance:				
	Total Amount of Rate Hikes	During Final 1% of Rate Hikes	During Final 3 Rate Hikes	12 Months After Final Rate Hike	24 Months After Final Rate Hike	Post-Rate Hiking Cycle Market Perspective
'80-'81	10.50%	0.3%	9.1%	-11.2%	37.6%	Market gained strength high inflation phase finally ended.
'83-'84	3.25%	9.7%	8.7%	18.2%	64.5%	Short rate hike cycle, market gained as economy rebounded.
'86-'89	3.90%	-2.9%	4.9%	18.9%	36.2%	Markets performed well following Black Monday crash.
'94-'95	3.00%	4.2%	8.2%	35.6%	69.9%	Early stage of economic expansion supported strong market returns
'99-'00	1.75%	2.3%	2.3%	-10.6%	-22.9%	9/11 and pop in tech bubble weighed on market returns
'04-'06	4.25%	2.7%	-0.2%	20.6%	4.7%	Pop in housing bubble + global financial crisis weighed on returns years later
'15-'18	2.25%	-6.1%	-6.3%	31.5%	55.7%	Strong market returns despite global pandemic
'22	3.00%					
Average	4.0%	1.5%	3.8%	14.7%	35.1%	

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	29,590	-4.0%
S&P 500 Index	3,693	-4.6%
NASDAQ	10,868	-5.1%
MSCI EAFE	1,734	-3.1%
10-yr Treasury Yield	3.68%	2.1%
Gold	$1,643	-1.91%
Bonds	$97.20	-1.6%

Earnings Highlights This Week

Darden: Demand for the company's two largest chains, Olive Garden and LongHorn Steakhouse, fell short of expectations during the period. CEO Rick Cardenas said inflation is weighing on consumers, particularly those in households with annual incomes under $50,000. Cardenas said Olive Garden is more exposed to low-income consumers

News and Notes:

4 Clever Storage Tips To Hide Clutter

First, consider using multi-purpose furniture….and accessories?
· Ottoman with storage
· Trays that can hold books/candles/other discussion pieces

Second, coffee tables that have hidden storage and are functional.
· Some have drop-down leaflets
· Some have hidden storage

Third, storage bins can become your best way to hide clutter
· Open shelving on bookcases can be a mess-Use larger storage on these shelves- bins in the kid's toy areas/rooms.
· Shower rods and hooks!!! for hanging large kitchen utensils, space dividers, purses
· You can use storage bins in the pantry-chip clips and written tags (and air-tight containers for food/cereal/chips.
· Have paperwork storage (so papers aren't all over the place)

Fourth, you can use the space under your bed (many people forget and especially good in a small space?
· If you just throw it under, it won't help.
· Consider using shallow space storage bins, but get one with a lid because dust can collect in the box.
· Great for seasonal clothes, collectibles, or things you want close by.

From the team at J M Brown Financial Partners
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free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998. The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

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