CFO CAPITAL MANAGEMENT
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The CFO 2022 Year End Market Outlook

For the third quarter of 2022 [Q3], all major global stock and bond markets fell for the third consecutive quarter in what has been the longest negative streak in almost 50 years. After the worst first half since 1970, Q3 started on a positive note as the S&P 500 rallied +17.4% from its June 16 low to its August 16 high. However, as inflation soared and central banks around the world reconfirmed their commitment to raise interest rates and tighten monetary policy, stocks again resumed their 2022 declines in mid-August. The S&P 500 gave back all its rebound gains and ended Q3 at new 2022 bear market lows. For 2022, the S&P 500 is down -24.8% for its worst first nine months since 2002 and the fourth worst since 1926. As our table below all-too-clearly shows, declining stock prices were not limited to the U.S. stock market. With the U.S. dollar rising another +7.9% during Q3 and +17.7% for 2022 year-to-date [YTD], the declines for all the major foreign stock markets were even worse than the U.S, with the MSCI China Index declining the most at -31.2% through the end of Q3.

Index Returns for Asset Classes & Broad Market Index Averages (1)	3rd Quarter 2022	2022 YTD
30-Day US Treasury Bills	0.46%	0.57%
Barclays Long-Term US Treasury Bond	-9.63%	-28.84%
Bloomberg US Aggregate Bond Index	-4.75%	-14.61%
S & P 500 Composite Price Index	-5.28%	-24.77%
Dow Jones Industrials Price Index	-6.66%	-20.95%
Wilshire 5000 Total US Stock Mkt Index	-4.85%	-25.30%
MSCI EAFE Index of Foreign Markets	-9.36%	-27.09%
MSCI Emerging Markets Index	-11.42%	-26.89%
MSCI Europe Index	-10.15%	-28.83%
MSCI Japan Index	-7.67%	-26.38%
MSCI China Index	-22.50%	-31.23%
SPDR GOLD Shares [GLD]	-8.09%	-8.43%
US Dollar ETF [UUP]	7.88%	17.66%
S & P GSCI (Commodity) Index	-14.31%	8.30%
(1) Source: MORNINGSTAR		

Moreover, what has continued to make 2022 so challenging, as our table of the broad asset categories and financial market indices shows, is that there have been few places to hide. The bond markets around the world have also declined. Global bond yields have been rising as the U.S. Federal Reserve and many other central banks have moved aggressively to hike interest rates in response to mounting inflationary pressures. During most cyclical bear markets, risk-off assets like Treasury bonds usually offer a place of refuge. This is not at all the case for 2022, as the 30-year long-term U.S. Treasury Index declined by -9.6% in Q3, which brought the total 2022 losses to a whopping -28.8%. The Bloomberg U.S. Aggregate Bond Index is down -14.6% for 2022 YTD. A 60/40 balanced portfolio of the S&P 500 Index [60%] and the Bloomberg U.S. Aggregate Bond Index [40%] is down -20.2% through Q3 for its worst first nine months since 1974 and the third worst since 1926. Only the US Dollar, US Treasury Bills, and Commodities provided any shelter from the global stock and bond market carnage that has occurred during 2022. The U.S. Dollar Index was again the top asset class in Q3 as well as for 2022 YTD. The war in Ukraine, the slowdown in European economic activity, China's COVID shutdown and our FED's aggressive hiking of interest rates have all combined to spur a flight to safety and into the U.S. Dollar.

The conclusion of 2022 Q3 and the beginning of Q4 have raised more questions than provided answers for investors. The recession risks are rising for the U.S. and major foreign economies as a consequence of the largest rise in inflation in 40 years and rising interest rates The key driver of global demand (the U.S.) deleveraged last decade and is still on reasonably solid footing and can therefor absorb much of the current and expected increase in borrowing rates. However, that is not true for all parts of the world. Foreign markets (especially fixed income in the U.K.) have recently experienced some disarray that has pushed the U.S. dollar higher, causing even greater inflationary pressures outside the U.S. That, in turn, is reducing confidence that a global recession can be avoided. The Conference Board's Leading Economic Index (LEI) fell -0.4% in September, which was worse than the consensus of -0.3%. The LEI has declined in six of the past seven months, as the outlook for growth has worsened over the course of 2022. The S&P Global Flash U.S. Composite PMI fell -2.2 points in October to 47.3, indicating a contraction in private sector output at the start of Q4. It was the fourth consecutive reading below the break-even level of 50, and near its lowest level since June 2020. Both services and manufacturing activity contracted, and business confidence about the year-ahead outlook deteriorated markedly in both services and manufacturing. Finally, we have been writing since our 2021 year-end report that inflation would be the economic issue of 2022. We have witnessed some of the fastest and most widespread global central bank tightening in history, which presents a major headwind for financial assets, and particularly for stocks. The latest U.S. Consumer Price Index reading came in above economist expectations and has given the Federal Reserve a green light to raise the Federal Funds rate by an additional 75 basis points at their November FOMC meeting. The Fed has been clear that it will not stop raising rates, let alone pivot to easing, until several data points show a clear decline in the inflation rate.

Including other supportive conditions, the U.S. financial markets need to see real evidence that the economy is cooling enough to bring down inflation, but not so much that it will lead to a sharp drop in corporate earnings and increase the risks of a serious recession. "Supportive conditions" include technical indicators that measure investor attitudes and behaviors that have often occurred at a market bottom. Examples include "investor sentiment", which is most often incorrectly bearish at market bottoms and therefor labeled as a "contrarian indicator." Also, the condition when there are many more stocks that are declining than advancing each trading day in the final stages of a bear market as investors "give up". It is an indication the stock market has become oversold. Both investor sentiment and the ratio of advancing to declining stocks have been at historic low levels typical of market bottoms. For CFO, however, a support condition that is still missing is a sustained decline in bond yields, which would signal that investors expect inflation to subside. When declining bond yields are combined with negative investor sentiment and an oversold stock market, market conditions would be in place for the start of a new bull market.

The CFO investment management team has been defensive since March/ April of 2022, and the protection of our investor's capital has been rewarded relative to their portfolio benchmark averages. Moving forward, we remain very data-dependent and will alter investment and allocation policies as economic/political and financial market conditions warrant. Please do not hesitate to call us directly with any questions that you may have about your portfolio strategy for your investment accounts.

The CFO Capital Management Team, October 25, 2022