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summaries

SIGMA INVESTMENT COUNSELORS

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MARKET COMMENTARY

The third quarter of 2022 started off with a relief rally and then finished with a dismal ending. Stocks ended September solidly in bear market territory, with the worst performance through that point of the year since 2002. Bond yields – which move inversely to bond prices – ended at their highest level in years. The double digit increases off the June bottom were fueled by hopes that the Federal Reserve Board could pause or slow its aggressive rate hikes. However, a surprisingly high inflation reading for August concerned investors. At their September meeting Fed officials signaled more interest rate hikes through the rest of the year, which led both bond and stock markets into a deep selloff.

We wrote in July that rising rates and high inflation have many fearing that a recession is just around the corner. Depending on the definition, we may already be in a recession. While unemployment remains low, consumer confidence and investor sentiment remain at or near 40-year lows and GDP numbers are contracting. Lingering consequences of the pandemic and the war in Ukraine continue to cause ripple effects throughout the world. There was talk about a possible "economic hurricane".

As the stock market sold off the last few days of the quarter, our clients and friends across Florida were experiencing the destructive impact of an actual hurricane, with Ian causing widespread wind and flood damage. The cleanup and rebuilding will be arduous, and our hearts go out to all that were impacted. Anyone who has lived through a hurricane knows the days immediately following the storm typically have gorgeous weather. The Friday and Saturday after Hurricane Ian hit central Florida saw sunny blue skies, low humidity, mild temperatures, and cool breezes across the peninsula. The metaphor for the hurricane of the financial markets did not go unnoticed for those of us in Florida. While there has been financial damage, like Florida, the market will rebuild, and sunny days and blue skies are ahead.

Hurricanes are also a good reminder about the importance of having a plan in place. Long time Floridians know how to secure their houses, bring in their patio furniture, stock up on supplies of water, food, batteries and make sure the generators are ready to go. While living through a Hurricane can be jarring, those of us who have lived through multiple hurricanes don't panic. We know that trying to predict the path of the hurricane is very difficult, almost as difficult as predicting the near-term returns on the stock market. Also, those of us who have ridden out bear markets before don't panic. We stick to our plan, make sure the investments are diversified and have cash in place for short term needs. We know that bear markets eventually end and are followed by bull markets. Having a plan in place is critical to riding out either storm.

As of September 30th, large cap stocks were down 4.88% for the quarter, with mid and small cap companies down 2.46% and 5.20%. The global equity markets were also negative, as developed markets were down 9.36%, and emerging markets shed nearly 11.57%. Bonds, which traditionally have traded opposite to equities were down nearly 4.75%.

Looking forward, continued volatility can be expected, but there is opportunity in these markets and blue skies ahead. Labor markets are showing signs of cooling, as US job openings fell in August by the largest number in 2 ½ years. A decline in excess demand for labor could help ease inflationary pressure on wages. Midterm elections in November have long been a catalyst for stocks. According to a recent Wall Street Journal article, the S&P 500 has moved higher in every one-year period following a midterm election since 1942, with the benchmark gaining 15% on average in post midterm years since WWII. While history is not always the best guide, having some of the uncertainty removed surrounding government policy has typically been a catalyst for positive returns.

Shelby Cullom Davis, a very wise and respected investor, once said "You make most of your money in a bear market, you just don't realize it at the time." Earlier this year, Sigma did a webinar on planning considerations in a down market. It is still very timely. You can view it online and forward it to your friends. In the webinar, we review how we use down markets to do things like tax loss harvesting, Roth conversions, and upgrade our investment portfolios. The webinar can be viewed at

https://attendee.gotowebinar.com/recording/7130144213403684610

As always, if you have questions about planning issues or your portfolio, please do not hesitate to contact us. It remains our privilege to serve in our capacity as your financial advisor.

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Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives

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