Market Commentary

Q3 2022 in Perspective

Buckingham's evidence-driven investing portfolios are strategically invested with a focus on long-term performance objectives. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

During the third quarter, global stock and bond markets continued their downward trends from the previous quarter. The S&P 500 index extended its decline from the first half of the year by closing the quarter with its worst month since March 2020. Bond markets also continued to decline, fueled by the expectation of continued rate hikes and elevated inflation readings. Growing concerns that central banks around the globe will be willing to push economies into recession to stop inflation resulted in negative performance for the quarter across all major asset classes.

For the quarter, U.S. stocks (as measured by the Russell 3000 index) lost 4.5%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S. IMI Index) lost 9.2%. Emerging market stocks (as measured by the MSCI Emerging Markets IMI Index) lost 10.8%.

The U.S. dollar index, a measure of the value of the U.S. dollar relative to a basket of foreign currencies, increased during the quarter—by 7.1%. Over the past 12 months, the U.S. dollar increased by 19.0%. The increase in the dollar is a headwind to non-U.S. investments held by U.S. investors.

U.S. interest rates increased during the quarter as the Federal Reserve raised the target range of the federal funds rate from 1.50%--1.75% to 3.00%--3.25% by way of two rate hikes of 0.75% in July and September. However, markets have currently priced in the expectation of four to five additional rate hikes during the remainder of 2022 with an implied target range of 4.00%--4.25% by year's end.

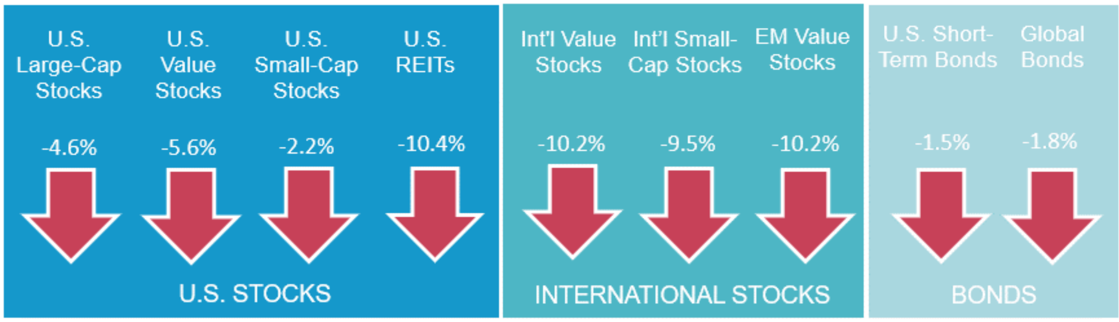
U.S. Economic Review

The final reading for second-quarter annualized GDP was -0.6% meaning economic output contracted for the second consecutive quarter in 2022. And while two consecutive negative readings historically precede the official declaration of a recession, the National Bureau of Economic Research, the organization responsible for declaring recessions, has yet to do so. The unemployment rate ticked up slightly to 3.7% in August. This coincides with a tight labor market that might be showing early signs of loosening; there were approximately 10.4 million job openings (down from 11.4 million in April) for six million unemployed workers at the end of August. Domestic inflation was 4.9% in August, as the Fed's preferred gauge of overall inflation, the core personal consumption expenditures (PCE), remained well above the Fed's long-term target average of 2.0%. Headline inflation, as measured by the consumer price index (CPI), closed out August at 8.3%. The CPI and PCE readings tend to differ primarily because CPI includes volatile categories like food and energy in its methodology while core PCE does not.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Bank of St. Louis, U.S. Department of the Treasury, Morningstar Direct, Bloomberg, October 2022.

Financial Markets Review

Domestically, all size and style equity categories were down during the quarter. International developed stock markets also posted negative performance, and, for U.S. investors, returns were negatively impacted during the quarter by the strengthening U.S. dollar. U.S. small-cap stocks were the best performing asset class, and U.S. REITs were the worst performing asset class during the quarter. The economic uncertainty caused by continuing war in Ukraine, high inflation and the Fed's ongoing rate-hike campaign caused U.S. and global bonds to lose more than 1% for the quarter and move in the same direction as stocks.



Source: Morningstar Direct, October 2022. Market segment (Index representation) as follows: U.S. Large-Cap Stocks (Russell 1000 Index), U.S. Value Stocks (Russell 1000 Value Index), U.S. Small-Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), International Value Stocks (MSCI World Ex USA Value Index (net div.)), International Small-Cap Stocks (MSCI World Ex USA Small Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets IMI Value Index (net div)), U.S. Short-Term Bonds (ICE BofA 1-3Y US Corp&Govt TR), Global Bonds (FTSE WGBI 1-5 Yr Hdg USD).

In the U.S., small-cap stocks declined less than large-cap stocks in all style categories. Growth stocks declined less than value stocks in all size categories. Among the nine style boxes, small-cap growth stocks performed the best and large-cap value stocks had the lowest return during the quarter.

U.S. Stocks
Q3 2022

	Value	Core	Growth
Large	-5.6%	-4.6%	-3.6%
Mid	-4.9%	-3.4%	-0.7%
Small	-4.6%	-2.2%	0.2%

Source: Morningstar Direct, October 2022. U.S. markets represented by respective Russell indexes for each category (Large: Russell 1000, Value, and Growth, Mid: Russell Mid Cap, Value, and Growth, Small: Russell 2000, Value, and Growth).

In developed international markets, large-cap stocks declined less than small-cap stocks in all style categories for the quarter except value stocks. Like in the U.S., growth stocks declined less than value stocks in all size categories. Among the nine style boxes, international large-cap growth stocks performed the best and international mid-cap value stocks had the lowest return during the quarter.

International Stocks
Q3 2022

	Value	Core	Growth
Large	-10.1%	-9.0%	-7.8%
Mid	-10.7%	-9.9%	-9.3%
Small	-10.1%	-9.5%	-8.8%

Source: Morningstar Direct, October 2022. International markets represented by respective MSCI World EX USA index series (Large: MSCI World EX USA Large, Value and Growth, Mid: MSCI World Ex USA Mid, Value, and Growth, Small: MSCI World Ex USA Small, Value, and Growth).

A diversified index mix of 60% stocks and 40% bonds would have lost 5.1% during the quarter.

60/40 Index Mix: 30% U.S. Large Cap (S&P 500 Index), 6% U.S. Small Value (Russell 2000 Value Index), 12% International Large Cap (MSCI World ex USA Index net div.), 6% International Small Value (MSCI World ex USA Small Value Index net div.), 6% Emerging Markets Total Stock Market (MSCI EM IMI net div.), 20% Global Short Bonds (FTSE WGBI 1-5yr Hdg USD Index), 20% U.S. Intermediate Government Bonds (BBgBarc US Govt Interm TR index).