

## Looking Forward – Managing through Noisy Markets Q4 Quarterly Commentary

Let me start off by saying that this has been a challenging year and I understand that client portfolios have been negatively impacted near term. However, the team at Capital Investment Services has been and will continue to be in the fight for you every day. It is in challenging times that we strive to do our best work positioning your portfolio for an effective recovery. We thank you for your continued confidence and know that our data-driven phased approach that we have used in 2008-2009, 2013, 2018 and 2022 is being used as our basis and we are objectively looking for opportunities to provide potential returns back into your portfolio.

### Third Quarter Recap

Global markets declined again in the third quarter as inflation remained near multi-decade highs, geopolitical tensions escalated further, and the Federal Reserve continued to aggressively hike interest rates signaling future rate increases will be larger than previously expected.

### Key Market Impact Points

1. Solid performance by corporate America as indicated by Q2 earnings reports are expected to slow as Q3 earnings reports begin in October.
2. Global macroeconomic challenges continue to shift led by monetary policy tightening shifting the currency markets considerably led by a very strong US Dollar.
3. In July and September, the Federal Reserve raised interest rates by a total of 150 basis points landing Fed Funds Rate at 3.25% with an estimated terminal rate in this rising cycle of 4.5%.
4. The August CPI report (released in September) showed a slight increase in prices, implying that while inflation pressures had potentially peaked. However, the September CPI Report (released in October) showed a continued increases in inflation bolstering the Federal Reserves case to raise rates further.
5. Global currency and bond markets saw a dramatic increase in volatility, as the government of the United Kingdom announced a spending package designed to stimulate the economy.

The combination of sticky inflation and expectations of numerous future Fed rate hikes present significant obstacles for the economy in Q4 2022. As we start the fourth quarter markets remain in search of concrete positive catalysts that signal declining inflation pressures and a less-aggressive Federal Reserve.

## Third Quarter Performance Review

<b>US Equity Indexes</b>	<b>Q3 Return</b>	<b>YTD</b>
S&P 500	-4.88%	-23.87%
DJ Industrial Average	-6.17%	-19.72%
NASDAQ 100	-4.42%	-32.35%
S&P MidCap 400	-2.46%	-21.52%
Russell 2000	-2.19%	-25.10%

Source: YCharts

<b>International Equity Indexes</b>	<b>Q3 Return</b>	<b>YTD</b>
MSCI EAFE TR USD (Foreign Developed)	-9.29%	-26.76%
MSCI EM TR USD (Emerging Markets)	-11.42%	-26.89%
MSCI ACWI Ex USA TR USD (Foreign Dev & EM)	-9.80%	-26.18%

Source: YCharts

<b>Commodity Indexes</b>	<b>Q3 Return</b>	<b>YTD</b>
S&P GSCI (Broad-Based Commodities)	-10.31%	21.80%
WTI Crude Oil	-24.73%	6.31%
Gold Price	-8.62%	-9.19%

Source: YCharts/Koyfin.com

<b>US Bond Indexes</b>	<b>Q3 Return</b>	<b>YTD</b>
BBgBarc US Agg Bond	-4.75%	-14.61%
BBgBarc US T-Bill 1-3 Mon	0.47%	0.63%
ICE US T-Bond 7-10 Year	-5.80%	-15.72%
BBgBarc US MBS (Mortgage-backed)	-5.35%	-13.66%
BBgBarc Municipal	-3.46%	-12.13%
BBgBarc US Corporate Invest Grade	-5.06%	-18.72%
BBgBarc US Corporate High Yield	-0.65%	-14.74%

Source: YCharts

## **Fourth Quarter Market Outlook**

As we start the final quarter of 2022, an honest assessment of the macroeconomic landscape reveals that the markets and the economy are still facing numerous challenges from still-high inflation, ongoing Fed rate hikes, and geopolitical instability. But while the outlook for risk assets remains challenged, that reality must be considered in the context of a market that has declined substantially and, presumably, likely already priced in a lot of “bad news.” Additionally, multiple sentiment indicators have hit or are approaching levels that historically have represented extreme pessimism and bearishness, and they are largely ignoring the reality that there has been some improvement in the macroeconomic outlook over the past several months.

Inflation has likely peaked which will lead to a less-aggressive Fed perhaps as early as the fourth quarter. According to the Fed’s estimates, interest rate increases will begin to slow in the coming months, and the last rate hike for this cycle could occur in March 2023 or sooner. If that turns out to be the case, and the Fed signals to markets that this rate hike cycle is approaching its end, I believe that will likely be a materially positive catalyst for both the stock and bond markets, and that’s evidenced by the July and August rallies that were driven by hopes of a less-aggressive Fed. Amid a difficult macroeconomic backdrop, the U.S. economy and corporate America have proven impressively resilient. Most measures of U.S. economic growth remain in solid shape, while U.S. corporate earnings estimates have stayed largely elevated, and the widespread earnings declines that were feared back in early 2022 simply have not materialized.

This is a difficult market and a complicated moment for the world, but history is clear: Positive surprises can and have occurred even in difficult times such as this, and through periods of similar macroeconomic turmoil, markets have historically eventually recouped the losses and moved to meaningful new highs. There is no reason to think this time will be any different.

## **Fourth Quarter Strategy Drivers**

1. Continue re-evaluating our clients’ international exposure and identifying potential funds that favor large-cap U.S. Market.
2. Identifying individual equity opportunities focusing on a mix on companies that generate free cash flow.
3. Continue re-evaluating our clients’ defensive structure of allocations focusing on higher interest rates on money market funds and short-term treasury funds.
4. Continue evaluating alternative funds within your portfolio for effectiveness to be non-correlative to the volatile components of the market.

In general, I am expecting a bear market rally to begin off the start of Q3 corporate earnings in October with continued fuel through the mid-term elections. With the expectation that the House of Representatives will flip to a Republican majority, this will be the catalyst

the markets have been reaching for. Another important component will be the messaging from the November Fed Meeting which will occur during the first week of November. I fully expect another 75-basis point raise in the Fed Funds Rate during the November meeting which will land the Fed Funds Rate at 4%. Without an indication of slowing inflation, the year-end target for the Fed Funds Rate is 4.75% with a terminal rate on this cycle of 5.5%. I expect an S&P500 range of 3500-4400 within the fourth quarter.

Strategic investing is a marathon, not a sprint, and even extended bouts of volatility like we've experienced so far this year are unlikely to alter a diversified approach set up to meet your long-term investment goals. Therefore, it's critical for you to stay invested within your risk profile and remain patient. I understand that the past 10 months in the markets have been a grind lower; however, opportunities have begun to present themselves during the bottoming of the market. Volatility can induce fear with market values testing the lows of the year. It is very important to treat volatility as a friend and not a foe when investing through these challenging markets.

Rest assured that our entire team will remain dedicated to helping you effectively navigate this market environment. At Capital Investment Services, we understand the risks facing both the markets and the economy, and we are committed to helping you effectively navigate this challenging investment environment. Please do not hesitate to contact us with any questions or comments, or to schedule a portfolio review.

Sincerely,

**Bobby Lumpkin**

President, CIS

Founder, *investingsimply*

Financial Advisor, RJFS

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*The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system. The S&P MidCap 400® provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The MSCI Emerging Markets is designed to measure equity market performance in 25 emerging market indices. The index's three largest industries are materials, energy, and banks. The MSCI ACWI ex USA Investable Market Index (IMI) captures large, mid and small cap representation across 22 of 23 Developed Markets (DM) countries (excluding the United States) and 24 Emerging Markets (EM) countries\*. With 6,211 constituents, the index covers approximately 99% of the global equity opportunity set outside the US.*

*Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated. S&P GSCI Gold is an index tracking changes in the spot price for gold bullion.*

*S&P GSCI Crude Oil is an index tracking changes in the spot price for crude oil.*

*The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The Bloomberg Barclays U.S. Corporate High Yield Bond Index is composed of fixed rate, publicly issued, non-investment grade debt, is unmanaged, with dividends reinvested, and is not available for purchase. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility and Finance, which include both U.S. and non-U.S. corporations. The Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.*

*Prior to making an investment decision, please consult with your financial advisor about your individual situation.*