KS Trust®
Wealth & Investment Management

Quarterly Economic Commentary

October 2022

Market Returns

	12/31/2021	09/30/2022	% Gain/Loss
Dow	36,338	28,726	-19.7%*
S&P 500	4,766	3,586	-23.9%*
NASDAQ	15,645	10,576	-32.0%*

**Total Return Including Dividends*

By Jim Watts, KS Trust Senior Portfolio Manager

It is really difficult to fathom that we are now in the last quarter of 2022. However, given the turmoil of the markets this year, the quicker we get 2022 over the better. As you can see from the chart on page 1, this year the markets have been anything but kind. This includes the bond markets, 10-year Treasury (-16.3%), Corporate Bonds (-14.6%), and Muni Bonds (-12.1%). This year there has been nowhere to hide from the negativity.

Any doubts about the Fed's resolve to deal with inflation were dismissed Wednesday, September 21st. They have communicated that they would be consistent and quick to respond. While the announced interest rate increase of 0.75% was not unexpected, it was the language and the tone that set the mood for the markets during the last few days of September. Currently, the expectation is that they will increase interest rates in early November by probably another 0.50%. The concern is that this meeting will be too early in November to get the inflation numbers or the employment report for October and they will move prematurely.

UBS says, "The Federal Reserve's next move remains a key driver of the market. While investors have largely accepted that the US central bank will continue to hike rates to bring down inflation, shifting expectations around the pace and length of the current hiking cycle are likely to create swings in market performance. On Friday, the core personal consumption expenditures price index, which excludes food and energy and is the Fed's preferred inflation gauge, rose 0.6% month -over-month in August. This brings the annual rate to a higher-than-expected 4.9%, after increasing 4.7% in July. While we think the Fed will ultimately succeed in cooling inflation, its aggressive rate hikes may cause some pain to the economy."

We will get the September job report this coming Friday. This is one of the keys that is pushing the Fed to be more aggressive because low unemployment and job creation indicates a growing economy. Right now, it seems like the Fed is looking for higher unemployment and job cuts. We think that this Fed push will ultimately create a recessionary environment in early to mid-2023. However, right now it appears that the consumer is in good shape. Everywhere that I go, people are lined up to spend money.

As I am writing this commentary, OPEC+ is considering significant cuts to oil production. Yes, oil prices have declined, but with our Strategic Petroleum Reserves (SPR) at an all-time low and the European countries set to stop buying Russian oil later this year, we think oil prices will rise between now and year-end. Restocking the SPR and channeling as much energy as possible to the EU for the winter months will filter down to push inflation higher. As such, we are over-weighted on the energy sector at least until year-end.

No doubt beyond the next Fed meeting, November 1st and 2nd, the next big hurdle is the mid-term election on November 8th. This election has many implications far and wide. Below are some factors addressed by Phillip Orlando, Chief Equity Market Strategist at Federated Hermes. "The economy appears to be on a glide path into recession, and the S&P 500 has plunged 25% so far this year. This steepest decline to start a year since 2008 has taken it to a depth we have not seen since the presidential election in November 2020. Typically, this would be a slam dunk for massive Republican gains in the upcoming midterms. But, Democrats have done a masterful job of shifting the political debate away from pocketbook issues like the rising cost of food, gas, and housing. Instead, they have successfully pivoted voters to consider a series of hot-button social policy issues right in their wheelhouse. As a result, what looked like an impending red tsunami earlier this year has narrowed considerably in recent months, and Democrats believe that they may hold onto their slim majorities in both the Senate and the House of Representatives. In the post war history of the U.S., Democratic presidents lost an average of 38 House seats in their first midterm election. Moreover, 33 current

Democratic members of Congress have chosen not to run for re-election in six weeks. An open seat is much easier for the Republicans to potentially reclaim than an incumbent one and vice versa. President Clinton, for example, lost 52 seats in his first midterm election, and President Obama gave up 63. President Biden views himself as a modern-day Lyndon Baines Johnson, with President Johnson's passage of his Great Society social policy initiatives. LBJ lost 47 seats in his first midterm election.

Handicapping the Senate

The Democrats have a much better chance of holding their slim majority in the Senate, which is currently split 50-50, with Vice President Harris breaking all ties. In the November 2022 midterms, 35 Senate seats are up for grabs, but Republicans are defending seven more seats (21 versus 14). Moreover, five Republican Senators have already announced their retirement.

Biden's Polls are Poor but Improving

According to Real Clear Politics, Biden's job approval rating is now 43%, 10 percentage points lower than his disapproval rating of 53% and 15 percentage points lower than when he took office in January 2021. But it represents a 6% improvement from his poor 37% approval rating in July. Biden's approval ratings specifically on the economy and foreign policy are a dismal 38% and 40%, respectively.

As Independents Vote, so Goes the Election

Independents are the largest block of voters in the country at 36% of the total, compared with 31% for each of Democrats and Republicans.

- Democrats have an 86% approval rating for President Biden, up from 78% in July, but down from 98% since January 2021.

- Republicans have a 7% approval rating for Biden, up from 3% in June, but down from 11% in January 2021.

- Independents have a 39% approval rating for Biden, up from 31% in July, but down from 61% in January 2021"

We believe that the fourth quarter, while typically a strong market quarter, will continue to see volatility. There are too many unknowns right now for the markets to "calm down." The dramatic swings, up and down, will continue to be driven by geopolitical, political, and economic news. A strong jobs report and a stubborn inflation number for September will most likely embolden the Fed to continue its aggressive approach.

We appreciate each client's uniqueness and will always strive to do what is best for each individual client. Please do not hesitate to ask us questions or express your concerns. This is your money and we are your stewards.

We are committed to maintaining a clear focus on building and preserving client's wealth and enhancing their quality of life, both now and in the future. Working in a fiduciary capacity, the KS Trust team provides a single point of contact for a full array of investment services.

Our team's collective knowledge and experience forges our ability to serve our clients more extensively and develop a clear path. It allows us to address the increasingly complex challenges of today's landscape and provide comprehensive financial advice with a clear vision for the future.

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