MARKET INSIGHT MONTHLY

October Update

MONTHLY COMMENTARY

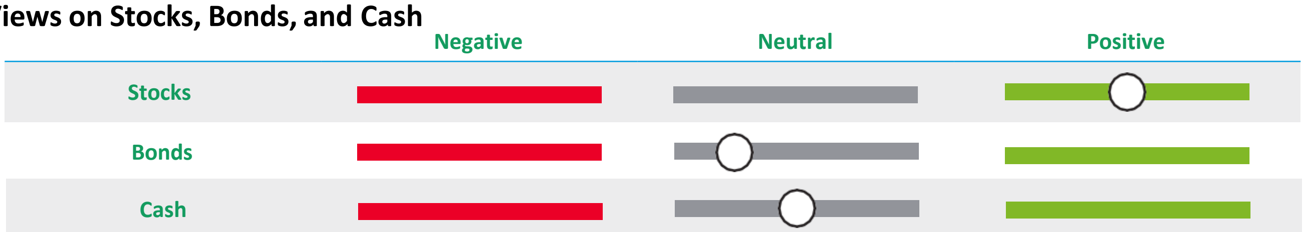
Following a July rally in both risk-oriented and high-quality assets, performance across financial markets in August reverted to the general theme in place throughout most of 2022, with negative performance experienced in most major asset classes and categories. Hopes of a Federal Reserve (Fed) pivot from hawkish to dovish were dashed in a brief speech by Chair Jerome Powell at the Fed's annual Jackson Hole Economic Symposium, in which the chairman warned of looming "pain" due to the ongoing tightening of monetary conditions. This was reiterated during the September Federal Reserve meeting where they raised rates another 75 bps to a range between 3.00 - 3.25%. Another 100 bps of hikes are now priced into market expectations for the rest of the year, which would take the rate above the 4% threshold. Bond market performance was overwhelmingly negative on the month, as the ongoing rise of interest rates applied headwinds to the asset class. While it is clear the threats imposed by inflation required attention, it is also becoming clear that the Fed solution may create alternative problems. Investors have expressed worry that the solution may be worse than the problem.

INVESTMENT TAKEAWAYS

- Despite quality earnings, positive consumer spending habits and the continuation of a strong employment environment, investors owning both fixed income and equity securities are feeling the weight of very "hawkish" Federal Reserve policies. The Fed's attack on inflation has resulted in depressed asset values but has had limited effectiveness in accomplishing their goal.
- Though the Fed will likely prevail in their quest to bring down inflation to their target rate of 2% by 2025, investors have not felt confident that the Fed has a clear path to success thus far. Despite increasing the short-term Fed Funds rate by 300 basis points thus far in 2022, inflation, as measured by both the Consumer Price Index (CPI) and Personal Consumption Expenditures Price Index (PCE), the Fed's preferred inflation gauge, have only declined modestly. Investors now believe the Fed will be forced to increase rates above any previously established targets. Each time the Fed has provided an estimated terminal rate (currently set at 4.6% during the first half of 2023), or rate at which will likely be the highest needed to effectively bring down inflation, it has ultimately been altered and surpassed. Thus, the Fed has created a credibility issue as they have not been able to provide accurate estimates.
- Though this transitional phase to higher rates is clearly uncomfortable and disconcerting, we believe that rates will eventually find an appropriate level. Further, we believe we are closer to the rate apex than it would otherwise appear. The most recent revision calls for the Fed to continue to raise short-term rates (above their current target of 3.00 - 3.25%) another 125 - 150 basis points. It should be noted that Fed action is the last in a sequence which begins with their communication regarding policy but is enacted almost immediately by the open market. Investors are demanding those intended future rates as soon as the Fed announces them. With 1 to 3-year Treasury notes now yielding above 4%, we are closer to the recently revised terminal rate.
- We maintain our value bias within large-, mid- and small-cap companies which better protects portfolios during volatile periods, as has been experienced this year. Companies with strong, less-leveraged balance sheets often are preferred during uncertain environments. Lack of interest rate stability denies growth companies the opportunity to regain momentum. Mid and small cap companies are showing very attractive valuations.
- Though developed nations' equity markets have generally outperformed those of emerging markets (EM), both segments have considerably lagged the U.S. We remain comfortable with our modest international exposure and prefer to wait for more compelling economic evidence before any re-allocation. We do note that international valuations are attractive.
- We continue to underweight our allocation to fixed income and favor short to intermediate maturities. Short rates continue to move higher coinciding with Fed activity. A flat to somewhat inverted yield curve is expected as slower growth is likely.

BROAD ASSET CLASS VIEWS

Views on Stocks, Bonds, and Cash



EQUITY ASSET CLASSES

With few and limited exceptions, global equity markets have been affected by heightened uncertainty during 2022. After many consecutive months of accommodative monetary policy to provide financial assistance and liquidity given economic uncertainty stemming from the Covid pandemic, most western central banks have abruptly reversed course. The fight against soaring inflation, brought upon by supply chain disruptions and then the Russian military aggression in Ukraine has created a less stable interest rate environment and in turn, more volatility for risk-oriented assets. We continue to believe that for longer-term investors, equities, both domestic and international provide exceptional growth opportunities. While investors may endure occasional volatility and reduced asset value, well chosen companies provide excellent returns when held over several economic cycles. Domestic earnings grew nearly 9% during the first half of 2022. Current estimates suggest first half earnings for 2023 may grow over 5%. While it is possible that earnings may be somewhat negatively revised, we do not feel that earnings will be severely compromised given the strong employment reports. The recent correction has led to the best valuation multiples in years in nearly all equity segments. While we prefer U.S. large-cap companies for stability and consistency, mid and small cap companies present a very compelling case as attractive valuations at present levels are rarely seen.

	Sector	Overall View	Relative Trend	Rationale
Market Capitalization	Large Caps			Though still the safest equity asset segment, large-cap companies are not immune to ebbs and flows and general economic conditions. Though record setting earnings were generated in 2021, interest rate increases in 2022 have been an impediment to investor enthusiasm. While value companies have held up quite well, growth companies are generally more vulnerable to higher interest rates and have noticeably underperformed. The recent market correction created an opportunity in both value and growth segments as many stocks offer compelling valuations not available for years. We believe investors will be rewarded by buying U.S. stocks during this recent corrective phase.
	Mid Caps			In 2021, mid cap companies' earnings and stock prices grew dramatically with powerful economic expansion. The recent 2022 correction is heavily due to the uncertainty associated with interest rate increases meant to stem inflation. Even more than large-caps, attractive multi-year valuations are available and longer-term investors should be rewarding at current prices.
	Small Caps			Much like mid caps, the small cap sector has been impacted by interest rate risk. Though this segment was among the strongest performers of 2021, it is generally more susceptible to higher volatility as uncertainty increases. We feel that valuations became even more attractive due to the correction. Strong earnings growth potential through 2023 suggests we remain overweight small caps.
Style	Growth			Large cap growth stocks are more rate sensitive and have suffered much more heavily than value stocks during this recent correction. To some degree, this growth correction has elements of a reversion to the mean. Growth stocks have outperformed value stocks for decades. Though rates may move higher, we feel that most of the current move is priced in and quality growth stocks should be well positioned for longer-term investors.
	Value			United maintains a value stock overweight to protect portfolios from unknown risks. The companies held in our value-based Large Cap Dividend Strategy maintain sterling balance sheets and are clearly preferred by experienced and disciplined investors. We continue to believe select value companies will exceed expectations and lower portfolio risk.
Region	United States			We see the potential for better performance in the U.S. stock market during the remainder of 2022 and into 2023. Investors are adjusting to the new higher rate normal as they have done in prior tightening cycles. The U.S. remains both a place of opportunity and refuge. U.S. earnings growth may slow but full earnings will still likely set new records this year and next. Valuations are extremely attractive in both mid and small cap companies.
	Developed International			Though most of the world transitioned to a sustainable post-Covid recovery last year, similar inflation concerns to that of the U.S. have impacted countries around the globe. In addition, geographic proximity to the Russian conflict and a limited supply of goods and energy alternatives has put additional stress on economic output. Therefore, the economic path is more compromised and less certain. We maintain our baseline weight to developed country equities.
	Emerging Markets			Though we believe in EM over the long term, government intervention often creates more obstacles than benefits. Investor sentiment can quickly change in this segment and has been affected by the higher degree of uncertainty in general given the many factors facing world leaders. The new composition of the EM (ex-Russia) could present opportunity. EM may present a potential better opportunity than developed markets.

FIXED INCOME

Limit Rate Sensitivity with Intermediate Focus

Though the Fed has increased the overnight Fed Funds rate by 300 basis points this year, it is clear more rate increases will be implemented in their attempt to stem inflation. The 10-year Treasury rate, which appeared to stabilize over the summer, has risen quite considerably over the past month. Inflation reports, while showing some degree of "peaking" are clearly not suggesting that inflation is under control. Short-term rates have continued to trend higher in direct alignment with Fed policy and commentary. Short-term Treasury rates have moved between 75 and 100 basis higher over the past month reflecting an even more "hawkish" Fed position. Rates are not moving from external price pressures. In general, energy and many agricultural commodity prices have been falling, not rising. But investors are embracing the "…don't fight the Fed…" axiom with undiluted bearish fervor. Should slower growth result, current bond yields may be quite attractive. We currently continue to suggest a blend of high-quality short-to- intermediate bonds in all fixed income portfolios. Though the economy has experienced higher inflation than normal, companies and municipalities have continued to perform well across the quality and size spectrum. High yield bonds issued by stable but growing entities continue to be a productive use of fixed income capital. We remain committed to a modest high yield position in both corporate and municipal bonds. Though inflation pressures appear to be lessening, so long as the Russian conflict exists, some inflationary fears will remain. Thus, we continue to promote inflation protection in fixed income portfolios via a position in Treasury Inflation Protected Securities (TIPS).

We favor municipal bonds for tax-sensitive accounts. Infrastructure spending, strong state revenues and the potential for higher personal tax rates provide support to municipal markets.

Positioning		Low Medium High	Rationale
	Credit Quality		Credit spreads have recently widened and are more aligned with historical averages.
		Short Int. Long	
	Duration		Concerns over rising interest rates/inflation remain viable with the prospect of a return to normalized economic growth with reduced government stimulus.

COMMODITIES

Our precious metals view remains neutral to negative heavily due to a strong U.S. Dollar. Gold, now priced at near

$1725 per ounce, trades in an inverse relationship to the U.S. dollar. While it saw a pronounced increase in the early stages of the Russian conflict, it then gave back all gains by July. Broad baskets of commodities which had also increased in price for several months post-invasion have recently stabilized and shown a negative bias. Commodity indexes are down 10-15% from their highs.

The global demand for goods and services improved over the last 18 months with the world distancing itself from Covid. In 2022, the Russian conflict has dramatically impacted price stability. Much like other commodities, oil has recently reversed course and is trading substantially below its post invasion highs. WTI is currently trading near $85 a barrel, down 35% from Q1 highs. We expect future price movement will be directly tied to developments stemming from the war and potential changes in global economic growth.

CONCLUSION

Over the past month, both short and long-term rates have increased rather precipitously. While inflation seems to be reversing course and declining, the pace of its decline remains an issue. The Fed is clearly determined to bring inflation down permanently no matter the short-term economic consequences. This rather myopic and single-focus policy stance has not been without controversy. We anticipate volatility will remain in effect until evidence of a compromise is reached between the Federal Reserve, political bodies and the financial markets. As indicated elsewhere, rates have risen very close to their anticipated terminal rate. This may indicate that a peak in rates is close at hand.

Disclosures

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual security. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

Economic forecasts set forth may not develop as predicted.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. Research material was sourced through LPL Financial, LLC.