CONCENTURE
WEALTH MANAGEMENT

CIO CORNER

September 2022

A WORD FROM
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Although September has historically been the worst month for stocks, investors look to buck the selling trend this year due to the amount of derisking that has already transpired.

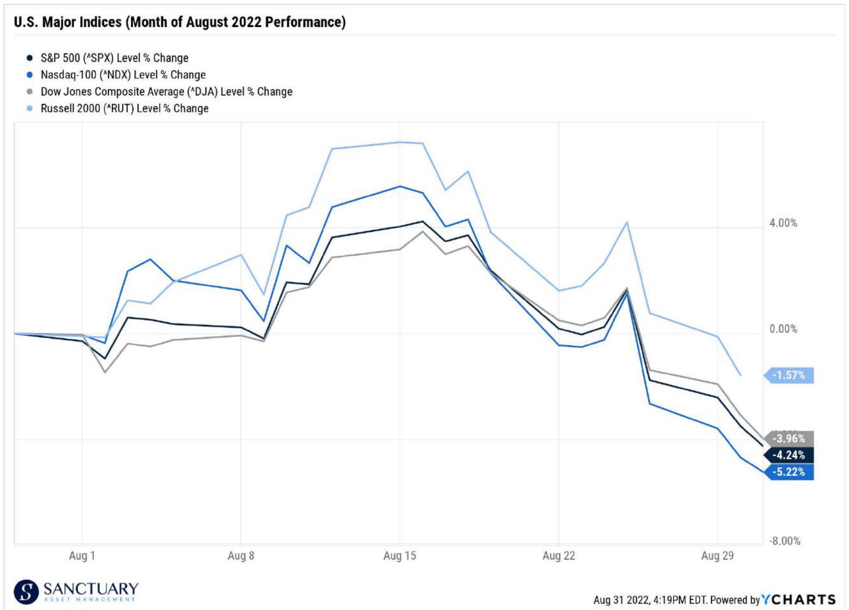
The Federal Reserve's two-day meeting begins September 20th and market participants expect additional volatility as markets continue to digest Federal Reserve Chairman Jerome Powell's eight-minute Jackson Hole speech outlining the Fed's commitment to get price inflation back to +2.0%.

Equity markets endured significant volatility in the month of August as investors continue to determine if the Federal Reserve will back off their historic interest rate hike campaign. August was the third month this year that the Nasdaq was both up 4%+ and down 4%+ MTD on a closing basis, absolutely breath-taking. The month quickly brought back investor anxiety against a better-than-expected backdrop of Q2 earnings reports. S&P 500 revenues and earnings both rose to record highs, up 12.1% and 9.5% year over year, respectively and Q2 earnings per share rose to a record $231. Traders and investors alike heavily valued forward guidance more than usual due to the nose-bleed level of inflation coupled with the continued precarious state of the economy. After a volatile month of trading in equities, stocks were lower the last four days in a row to close out the month of August. Despite the strong start to the month, major indices all ended up in the red from a monthly perspective when the closing bell rang.

In the same manner that summer draws closer towards an end, investors look to close out the last month of Q3 too. Dating back to 1950, the month of September historically is the worst for the markets. In fact, it's the only month that has a negative average total return. I believe this September will be different. With kids and grandkids thankfully being back in school and hopefully all falling back into their respective daily routines, I believe the equity market may also have the opportunity to embrace a more defined outlook after this month's critical interest rate decision by the Federal Reserve. All eyes will again be watching the Fed's two-day meeting which indeed will deliver its decision. This September decision will most certainly illuminate the path forward for Q4 2022.

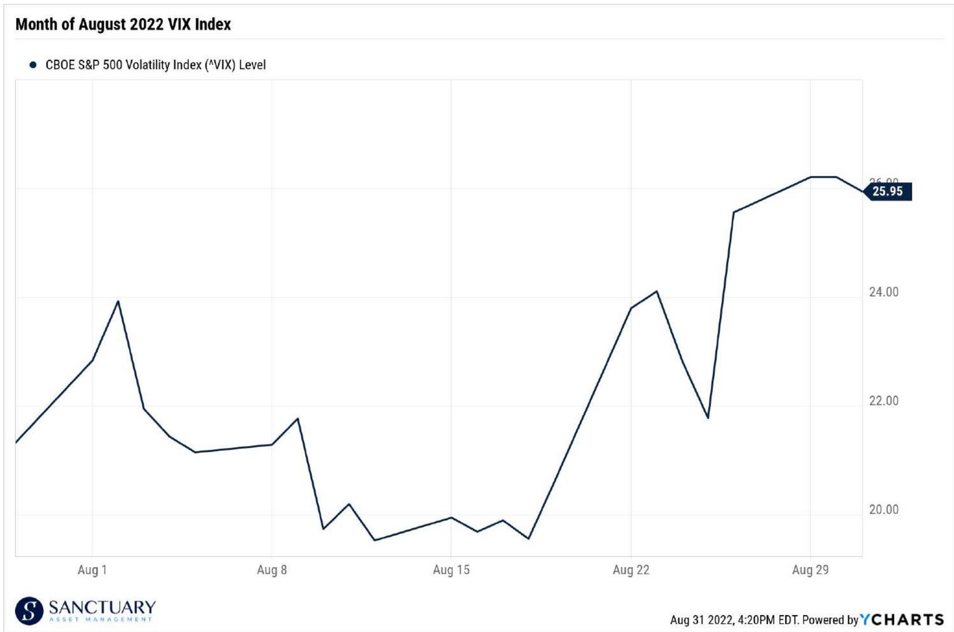
de·ci·sion *noun*
a: the act or process of deciding
b: a determination arrived at after consideration

The Fed decision on their path for interest rates continues to dominate headlines as well as capture the attention of investors globally. As investor sentiment fluctuates daily as to either a 50-basis point or 75-basis point interest rate hike likely awaits, the hawkish tone of the Fed is being measured mostly. Closing out the month of August, the major indices slid between 4% and 5%, their worst monthly performances since June. On the month, the S&P 500 dipped 4.2% to settle at 3955; while the Dow Jones Industrial Average fell 4.1% to 31,510. The tech-heavy Nasdaq Composite was lower by 4.6%, closing at 11,816.



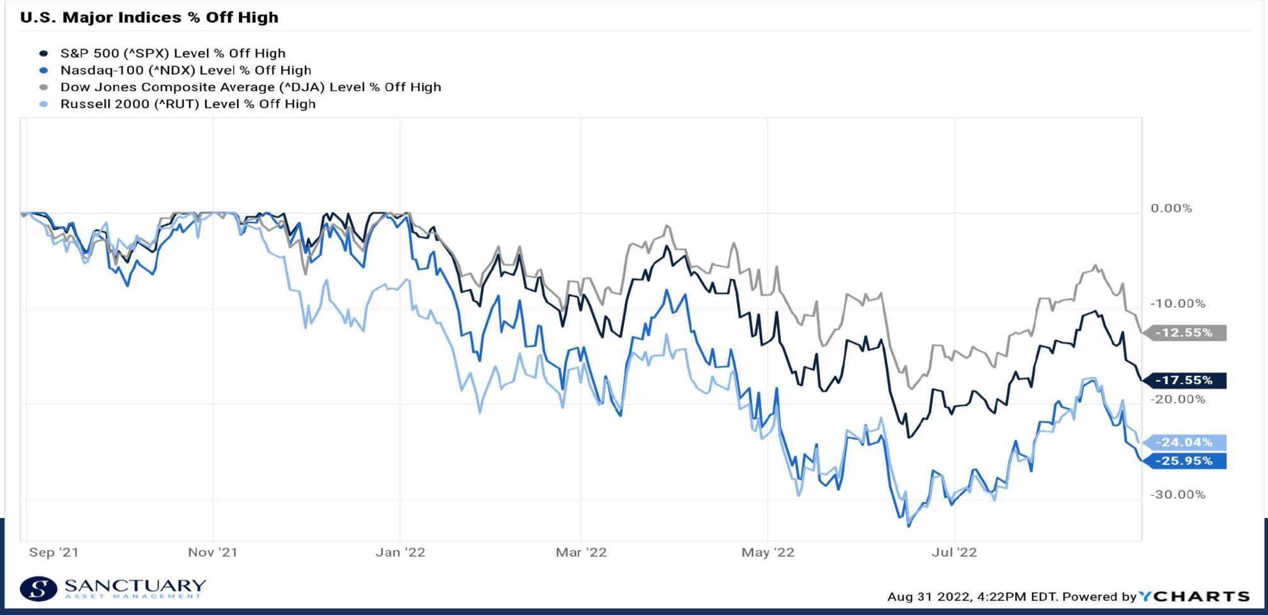
To say it has been a volatile summer for U.S. stocks is quite the understatement. Many investors have attempted to forget the "dog days" of June when the S&P 500 was down 23% (on the year) and established a low in the benchmark index of nearly 3600. Inside of those oversold conditions, the S&P 500 reversed quickly and jumped more than 17%, and the Nasdaq 100 rallied almost 23% between middle of June and mid-August, before the air got thin above 4300 in the S&P 500. Year-to-date, the S&P 500 is still in negative territory.

Stocks wavered and emotions have been on the rise as investors try to recalibrate expectations for the short-term path of the Federal Reserve. The indication for the need to continue to raise interest rates to tamp down runaway inflation has stirred up market anxiety. The nervousness derives from the Fed's wicked-fast (for my East coasters) pace that may be too forceful resulting in pushing the economy into a recession. The nauseating debate about the "Fed Pivot", or reducing their hawkish stance, has created a ton of turbulence specifically in interest rates. This anxiousness is also revealed in the continued elevation of volatility represented in the CBOE's VIX index, closing the month above 25.



A VIX of 32 means expectations for daily S&P 500 realized movements, either up or down, are 2%. The VIX Index is a calculation designed to produce a measure of constant, 30-day expected volatility of the U.S. stock market, derived from real-time, mid-quote prices of S&P 500® Index (SPX) call and put options. On a global basis, it is one of the most recognized measures of volatility -- widely reported by financial media and closely followed by a variety of market participants as a daily market indicator.

The S&P 500 alongside other U.S. major indices are still lower on the year. It will be several weeks before market participants know if they were overly optimistic or accurate with their interpretation of Fed Chair Powell's decision. In the meantime, an impressive earnings season that recently wrapped up is providing optimism that the trajectory of the indices indeed remains higher. In addition, signs of inflation abating provides investors confidence that this expected volatility is not just normal going into September. I believe volatility is healthy as the market is currently allowing investors to put money to work in a less acute manner than we have been acclimated to post Covid.

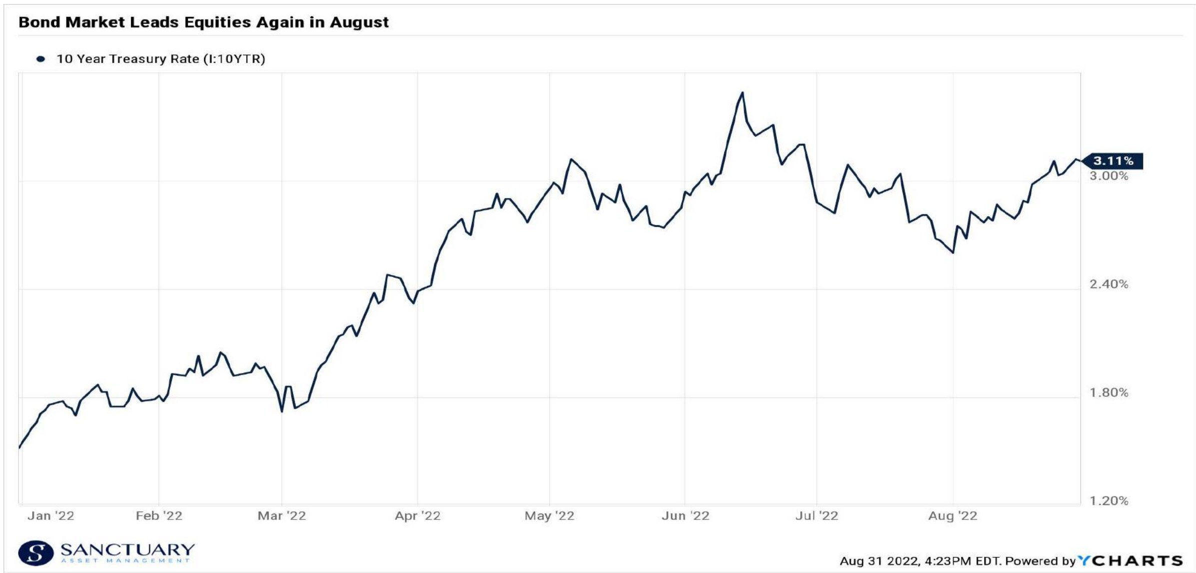


Solid Earnings: Earnings growth of 6-7% doesn't seem wildly exciting, but given the headwinds corporate America has faced, the overarching theme of the Q2 earnings season was positive. I would even go as far to say that it is as impressive as Notre Dame upsetting the Ohio State Buckeyes in Week 1 of college football. The various headwinds last quarter included the usual suspects in a slowing economy, intensifying inflation pressures, ongoing global supply chain disruptions and a surging U.S. dollar. Somehow though, corporate America delivered the type of upside investors needed in this continued uncertain macro landscape.

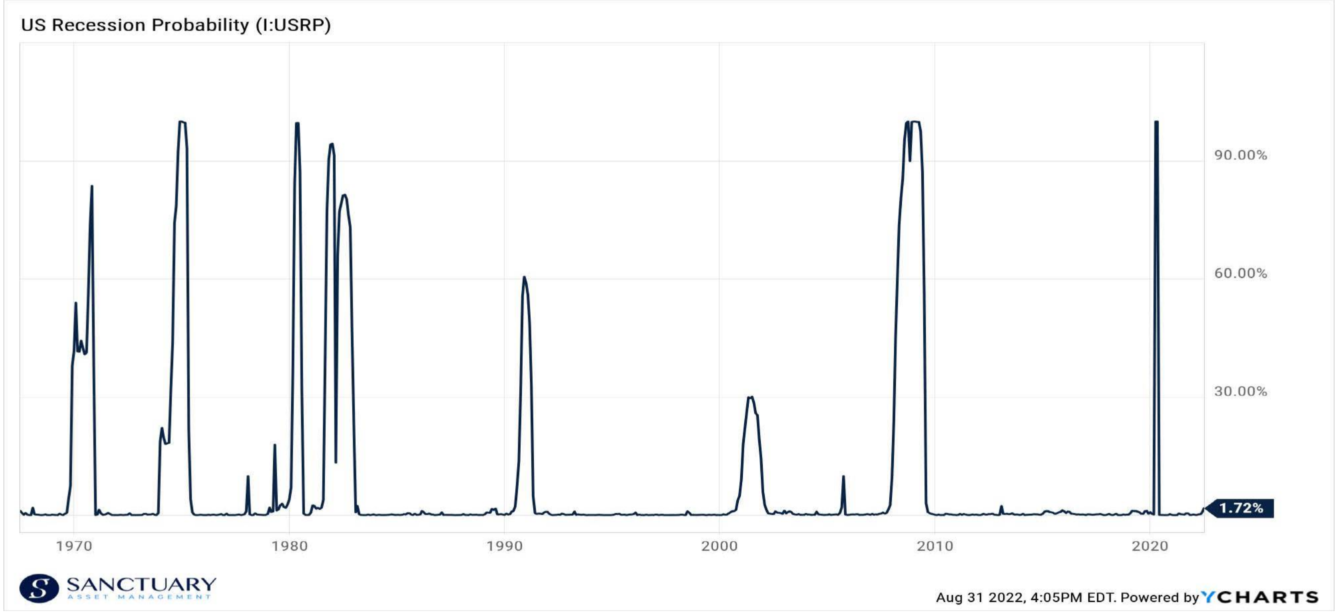
Looking ahead, analysts expect earnings growth of 5.8% for Q3 2022 and 6.1% for Q4 2022. For CY 2022, analysts are predicting earnings growth of 8.9%. The forward 12-month P/E ratio is 17.5, which is below the 5-year average of 18.6 but, above the 10-year average 17.0. It is also above the forward P/E ratio of 15.8 recorded at the end of Q2 (June 30), as the price of the index has increased while the forward EPS estimate has decreased since June 30. Despite coming down about $8 from its prior high, the consensus estimate for S&P 500 EPS in 2023 is still near $244. I find this rather impressive with mostly cautious guidance from companies and more than dismal overall sentiment from business leaders.

The Fed: With the beautiful Teton mountain range as his backdrop in Jackson Hole, Federal Reserve Chairman Powell took only eight minutes to state that the central bank's interest rate decision this month would depend on "the totality of the incoming data and the evolving outlook." The unemployment rate for August, which tracks the number of people who are out of work but currently looking for employment, combined with the consumer price index report for August (set for release on Wednesday, Sept. 13) are two large data inputs that the Fed closely monitors. Although investors tend to have short-term memory, I would like to point out that at the release of the last FOMC minutes in mid-August, the central bank signaled that it could certainly slow that pace of rate hikes in the coming months as its historically large and consecutive rate hikes take full effect.

U.S. Treasuries: Interest rates continue to fluctuate as the yield discovery mode is directly correlated to the Federal Reserve's policy. In August, we saw a steady rise in the 10-year note as interest rate hike expectations have evolved. The month started at 2.67% and as investors prepared for Fed Chairman Powell's Jackson Hole remarks, the grind higher and move back above 3% happened while the 10-year note yield settled at 3.19%. The 2-Year, which is sensitive to Fed rate hikes, continued to flirt with 14-year highs. Treasury yields recent ride higher now has more hawkishness baked in, keeping growth stocks that are more sensitive to rising rates, in the crosshairs. (Shout out there to Ben McAnally)



Recession Fears: The U.S. economy shrank for a second quarter in a row this year, a second estimate from the Bureau of Economic Analysis confirmed in late August, signaling the start of a technical recession. Recession is often defined as two consecutive quarters of economic contraction, declining real GDP. The nation's GDP fell 1.6% on an annualized basis in first quarter 2022 and was followed by a 0.9% drop in the second quarter. That being said, I believe that there is a paramount "recession" indicator available to investors by measuring labor markets. Significant and consistent strength in our jobs data has provided strong evidence that the U.S. economy did not fall into a recession in Q1. As economists typically declare a "recession" months if not quarters after they transpired, their potential declaration may most likely be a rearview mirror perspective.



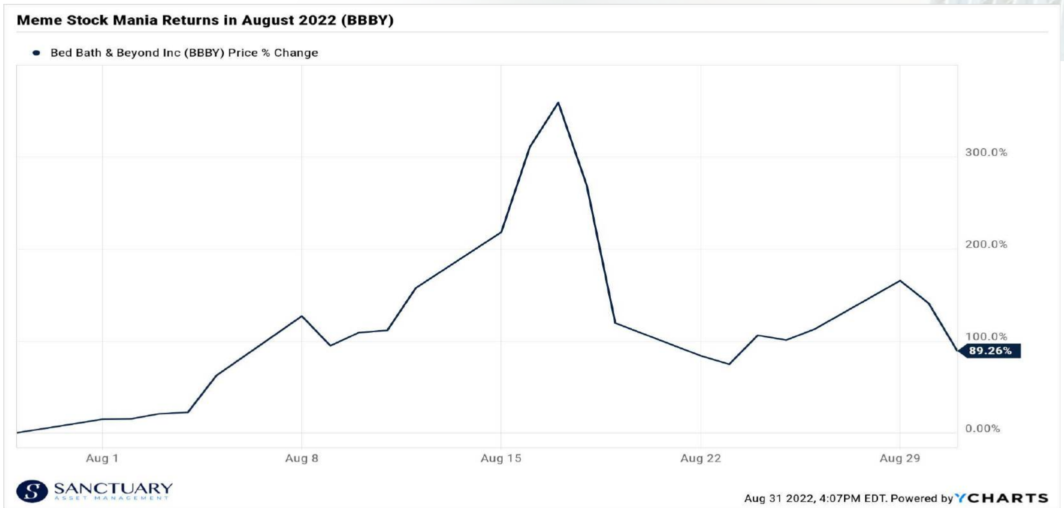
Sector Strength: In the wake of the recent downdraft in equities to close the month, not many sectors were insulated. However, the energy sector did close higher for three consecutive weeks (pre-Jackson Hole) with a 4.3% gain fueled by comments from members of OPEC (Organization of Petroleum Exporting Countries) concerning production cuts to stabilize prices. Utilities have come roaring back in August, but they became attractive and entered on our sector rotation model (relative strength) before the markets turned lower again subsequent Jackson Hole. And lastly, Industrials and Consumer Staples continue to be consistently delivering outperformance and stay towards the top in recent months.

Select Sector SPDR ETFs

Elon Musk: Musk and his lawyers sent a letter dated Aug. 29 to Twitter, according to a filing with the SEC. It follows reports last week that Twitter's former security chief, Peiter Zatko, filed a whistleblower complaint with the SEC alleging the company deceived its board and federal authorities about vulnerabilities to hackers and its efforts to fight spam. If true, it would demonstrate a breach by Twitter of certain provisions of the merger agreement. Those fresh claims provide Musk with fresh ammo in his complex legal battle to get out of his expensive deal to acquire Twitter. The market cap of Twitter is roughly $30B these days, more than 30% lower from where he offered to buy $TWTR.

Bitcoin Blues: The cryptocurrency market plunged recently; Bitcoin (BTC) fell below $20k to hit a daily low of $19,575. The often called "digital gold" is roughly off 60% in 2022.

Inflation Cools: I believe we saw peak inflation in June as significant cooling of commodities, a serious slowdown in the housing market, and also a sustained improvement on supply chains fortifies my position. The next inflation update is scheduled for release on Sept. 13. Gasoline prices, which hit a record high earlier this summer, have fallen sharply in recent weeks providing relief for drivers. Gas is now below $4 a gallon in parts of the country, even as the national average remains slightly above that level.



Return of the Memes: Stocks that go viral online through social media or message boards, continue to make news. Bed Bath and Beyond stock has been on a roller-coaster ride over the past month ($5-$20 range) as traders from Reddit coordinated a short squeeze on the retail stock, which had 103% of its float sold short as of a month ago. The company said that it has secured more than $500mm in new financing and that it is closing 150 stores and laying off staff as it seeks to fix its struggling business. My CNBC friends and I discussed how this could potentially be a positive trade, not an investment. Traders should jump into meme stocks short-term, says Sanctuary Wealth's Jeff Kilburg (cnbc.com)

POSITIONING FOR SEPTEMBER

As many investors anticipated a substantial move higher in volatility for 2022, focusing on rebalancing, repositioning, and tax loss harvesting has been additive in creating better portfolio outcomes. I believe that the market breadth revealed in the month of August bodes well for September performance. The percentage of S&P 500 stocks closing above their 50-day moving averages at one point in August jumped to 93%, the highest level since the summer of 2020. These stocks held above 90% for nearly another week, according to FactSet. Over the last 20 years, the S&P 500 has on average rose in the months and year after initially crossing the 90% threshold.

Key Takeaways: I remain cautiously optimistic as global investors try to decipher how hawkish the United States central bank will be. I take solace in the strength of the most recent earnings season, and I also appreciate the recent uptick in consumer sentiment data. The continued dislocation amongst sectors tends to offer opportunities to investors. Staying focused on quality, essential and blue-chip names with a value undercurrent should continue to bode well as volatility persists in this mid-term election year of 2022. Understanding and repositioning duration in fixed income exposure is opportunistic as well. Continuing to appreciate the guiding light that the U.S. Treasury market has been and that the 10-year noted should continue to help navigation through this rate normalization process.

Please reach out to further discuss at any time.