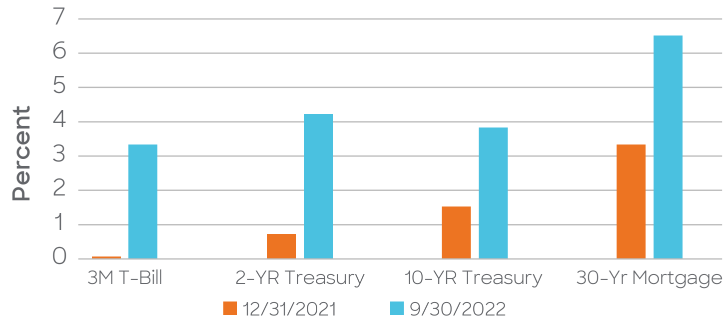
2022 3RD QUARTER | Economic and Financial Market Commentary

fnbo

Cross Currents in Economy Cloud Future

As we move into the final months of 2022, it is difficult to predict how the economy or markets will look by year-end. There are many issues for investors to analyze, the biggest being inflation and interest rate increases. The increases are what have infused volatility into the stock and bond markets. As inflation rose well above expectations this year, the Federal Reserve aggressively raised short-term rates, and bond investors aggressively raised long-term rates by selling all kinds of bonds. Mortgage rates have doubled since the beginning of the year, the 10-year treasury recently hit 4% for the first time since 2009 and money market funds are now paying decent interest. The theory is that these higher rates will slow the economy and reduce inflationary pressures.

The economy is showing signs of slowing in certain areas like manufacturing and housing, but the labor market is still tight, which should prevent inflation from dropping quickly. Higher rates and the slowing economy may eventually affect the labor market. In this macro-environment, we expect reduced hiring and slower wage growth, but don't anticipate substantial job losses. This could help keep the economy from seeing a substantial recession. Other factors such as geopolitics, a strong dollar and global economic weakness may impact the economic outlook.



Sources: FactSet and U.S. Department of the Treasury

Market Return Data

Source: Morningstar Direct data as of September 30, 2022

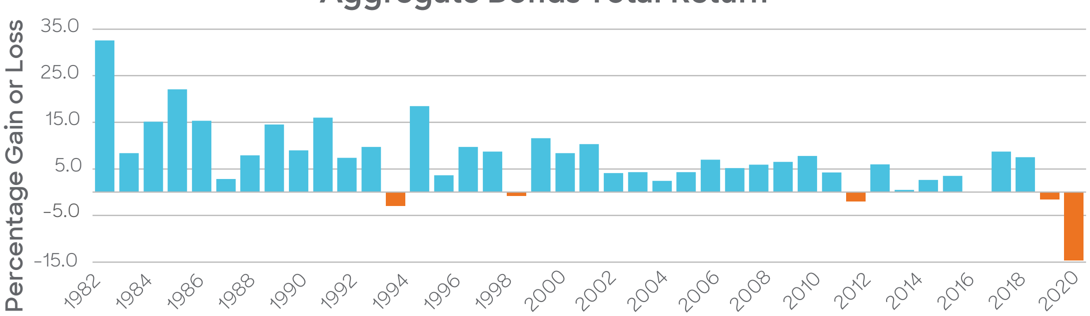
Asset Class	Index	Total Return 3 Month (%)	Total Return YTD (%)	Total Return 1 Year (%)	Annualized 3 Year (%)	Annualized 5 Year (%)
Global Equities:	Diversified Equity Benchmark*	-5.82	-25.14	-19.24	5.29	6.37
Domestic Equities:	S&P 500 (Large Cap)	-4.88	-23.87	-15.47	8.16	9.24
	Russell 2000 (Small Cap)	-2.19	-25.10	-23.50	4.29	3.55
International Equities:	MSCI EAFE (Developed)	-9.36	-27.09	-25.13	-1.83	-0.84
	MSCI Emerging Market	-11.57	-27.16	-28.11	-2.07	-1.81
Fixed income:	Barclays Intermediate U.S. Gov't/Credit	-3.06	-9.62	-10.14	-1.64	0.38
	Barclays Muni Short-Interm 1-10 Years	-2.25	-7.17	-7.08	-0.75	0.66
	Barclays Global Intermediate	-6.21	-16.50	-17.64	-5.04	-2.53

The Way Forward

The stock market is currently trading roughly ~9% below its long-term average valuation, and higher rates have bonds offering the best outlook for returns in over a decade. While there may be more volatility ahead of us, these valuation changes offer an opportunity for long-term investors. Talk with your advisory team about how to best support your goals through this environment.

Asset Evaluation – Bonds and Stocks

• Bonds: A historic increase in interest rates has had an equally historic impact on the bond market. As seen in the chart below, returns have not just been negative, they are the worst we have seen by a substantial margin. Current expectations are for the Fed to raise rates further from here so additional pain may be felt but the worst is likely behind us. Fixed income returns are correlated with interest rates and may improve as we near the end of the Fed's rate hiking cycle.



Source: Bloomberg

• Stocks: Higher interest rates also sent equity markets into bear territory. As yields increased, the valuation or multiple for equities decreased from 21x to 15x. This simply means we are paying less for stocks relative to what we did entering the year. The big question for equities is how much company earnings will be impacted by the slowdown in the economy. The consumer has been propped up by a healthy job market and wage growth. Whether or not consumer spending grows, or contracts, will determine the impact on future earnings and whether elevated volatility continues.

• 60/40 Portfolio: Typically, when stocks sell off, bonds outperform to offset some losses. This year is unusual in that both assets have gone down substantially at the same time. This year, a 60/40 portfolio of the S&P 500 and the Bloomberg Aggregate Bond Index is undergoing its worst start to any year, down 20%. Although it has been a difficult year, FNBO clients have benefited from the use of alternatives and tactical adjustments that have mitigated some of the stock and bond volatility.

Please see important disclosures on the next page.

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Sources:

Bloomberg, Morningstar, FactSet, Crandall Pierce

*Benchmark consists of Russell 3000 (76%), MSCI ACWI ex US (20%) and FTSE EPRA/NAREIT Global (4%)

Index Definitions:

Barclays Global Intermediate: This index measures global investment grade debt from 24 local currency markets, including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Barclays Intermediate US Government/Credit Index: The index is a broad-based flagship benchmark that includes investment grade, US dollar-denominated, fixed-rate Treasuries, government-related and corporate securities, within a 2-10 year maturity range.

Barclays Municipal Short-Intermediate 1-10 Years: Index that measures the performance of US municipal bonds with time to maturity of between one and ten years.

Bloomberg Commodity Spot Index: This index measures the price movements of commodities in the Bloomberg Commodity Index and select subindexes. It does not account for the effects of rolling futures contracts or the costs associated with holding physical commodities and is quoted in US dollars (USD). The Bloomberg Commodity Index tracks prices of futures contracts on physical commodities on the commodity markets.

Bloomberg Commodity Index: This index is calculated on an excess return basis and reflects commodity futures price movements. The index rebalances annually weighted 2/3 by trading volume and 1/3 by world production and weight-caps are applied at the commodity, sector and group level for diversification. Roll period typically occurs from 6th-10th business day based on the roll schedule.

FTSE EPRA/NAREIT Global: An index used to track the performance of listed real estate companies and REITS in both developed and emerging markets.

MSCI ACWI ex US: An index that captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. With 2,136 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.

MSCI EAFE - Developed International: This index reflects the performance of small- to large-cap stocks across the developed regions of Europe, Australasia, and the Far East (EAFE). The index was developed by Morgan Stanley Capital International (MSCI) in 1969 and lists 926 stocks from 21 countries in the EAFE.

MSCI Emerging Market: An index used to measure equity market performance in global emerging markets, consisting of 23 economies including Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

Russell Indices: The Russell 3000 is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S. traded stocks which represent about 98% of all U.S. incorporated equity securities. The Russell 2000 index measures the performance of approximately 2,000 of the smallest companies in the Russell 3000 index.

S&P Indices: The S&P 500 Index is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value. Other popular indices include the S&P MidCap 400, which represents the mid-cap range of companies and the S&P SmallCap 600, which represents small-cap companies. The S&P 1000 is a combination of the S&P 400 and 600, representing the small and mid-cap market. The S&P 500, S&P MidCap 400 and S&P SmallCap 600 combine to create a U.S. all-capitalization index known as the S&P Composite 1500.