

Market Review

September 2022

Fresh Mountain Air, Same Hawkish Stance

A firm stance on fighting inflation from Jackson Hole pushed markets lower as investors wrestle with the impact on the global economy.

Key Observations

- Markets turned negative for the month following the Jackson Hole Economic Symposium.
- The Federal Reserve reiterated its commitment to combat inflation “until the job is done.”
- We expect market volatility to persist as we head into the end of the year, as central banks continue to fight high inflation around the world at the expense of economic growth.

Market Recap

For much of August, markets were heating up in the wake of a relatively favorable earnings season. But much like a child’s summer ends with a new school year, the August rally ended following the Jackson Hole Economic Symposium in the second to last week of the month.

Federal Reserve Chairman Powell said “we (the Fed) will keep at it until the job is done” followed by his view that bringing inflation down will “require a sustained period of below-trend growth.”¹ These comments spooked markets

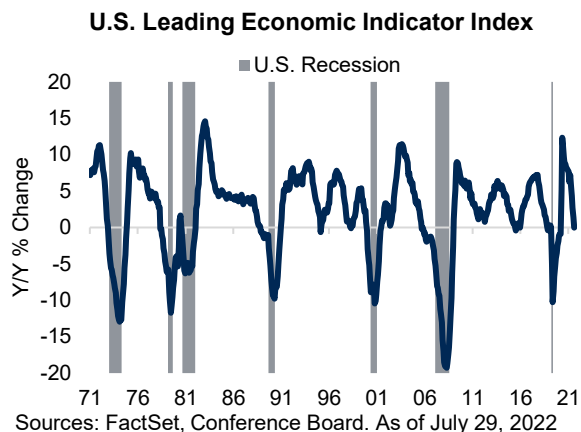
and all but ended the market narrative of a pause in rising interest rates. The perceived increased likelihood of a recession as a result of Powell’s comments drove equity markets lower in the last two weeks of the month.

Leading indicators are flashing warning signs as well. The U.S. Treasury curve remains inverted, and the Conference Board’s LEI Index was flat year-over-year for the most recent July reading – historically, the index has crossed into negative territory preceding a recession, but there have been “false positives” as well.

| Financial Market Performance | | |
|------------------------------|--------|--------|
| | August | YTD |
| S&P 500 | -4.1% | -16.1% |
| Russell 2000 | -2.0% | -17.2% |
| MSCI EAFE | -4.7% | -19.6% |
| MSCI EM | 0.4% | -17.5% |
| Bloomberg US Agg Bond | -2.8% | -10.8% |
| Bloomberg US HY Corp Bond | -2.3% | -11.2% |
| FTSE NAREIT Equity REITs | -6.0% | -18.2% |
| Bloomberg Commodity | 0.1% | 23.6% |

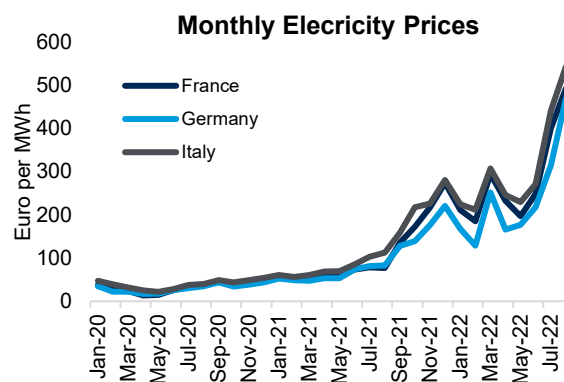
Source: FactSet. As of August 31, 2022

¹ The Federal Reserve System: *Monetary Policy and Price Stability* 8/26/2022
<https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm>



Despite market concerns and the recent down draft in equities, we have seen recent economic data remain positive. Consumer confidence in August rose compared to July and ISM data indicates both the manufacturing and services sectors remain in expansion territory, albeit at a slowing rate.

International markets were not immune to the sell-off in August. Like the Fed, the ECB has indicated its willingness to fight inflation, which will ultimately have an impact on growth in Europe. Furthermore, the conflict between Russia and Ukraine has created uncertainty as to the availability of natural gas to European nations given that Russia is the primary supplier. This has driven natural gas prices sky high this year, and electricity prices for consumers have followed suit (Europe generates approximately 13 percent of its electricity from gas²). Electricity



Source: EMBER. As of August 2022

prices have doubled in recent months for many of the major European countries, which will undoubtedly likely impact consumer behavior. There has been an effort to switch to other energy sources to generate electricity

(coal, nuclear, liquid natural gas), but there is both a time and monetary cost to making these types of changes.

Currency moves were also a headwind for U.S. based investors holding international assets, as the U.S. dollar continued to strengthen against many major currencies in August.

| August USD vs Local Currency Performance | | |
|------------------------------------------|-------|-------|
| | USD | LCL |
| MSCI EAFE | -4.7% | -2.3% |
| MSCI EM | 0.4% | 1.2% |

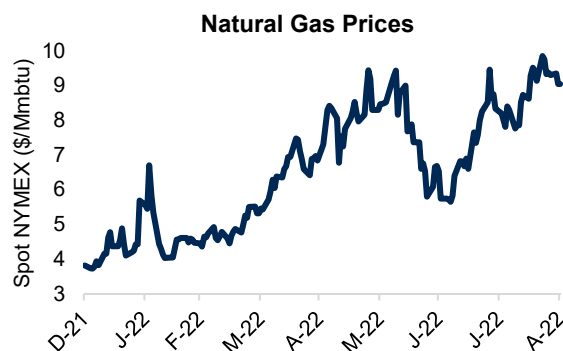
Source: Morningstar Direct. As of August 31, 2022

² EMBER. As of 2021.

Relative to domestic and international developed markets, emerging markets fared well in August, managing to eke out a marginal gain. Notable strength from Brazil was a key contributor (MSCI Brazil returned 6.4 percent in August). Strong commodity markets, a firming labor market and better than expected economic activity provided a tailwind for the country.

Fixed income markets saw negative results likely due to the wake of higher interest rates. The U.S. 10-year Treasury yield ended the month at 3.1 percent, roughly 50 bps higher than where it began. High Yield held up slightly better than the broad Bloomberg U.S. Aggregate Index, benefiting from higher coupons to help offset the negative price impact from rising interest rates. A reduced supply environment was also beneficial, and corporate credit spreads ended the month roughly where they began. As mentioned above, the U.S. yield curve remains inverted as the Fed continues on its tightening path, pushing short-term rates higher, while long-term rates remain anchored due to investor concerns about future economic growth.

Commodity markets were one of the few bright spots for the month. The energy and agriculture segments produced strong performance, while industrial metals lagged. Energy prices remain resilient, with notable appreciation in the natural gas market stemming from the uncertainty of supply coming from Russia. Drought conditions through the summer led to weak harvests which has put upward pressure on agriculture prices. Industrial metals faltered as investors grew increasingly concerned about the potential for slower economic growth around the world.



Source: FactSet. As of August 31, 2022

Outlook

Investors continue to face uncertainty as we head into the fall months. All eyes are on the impact of the Fed's commitment to fight inflation, even at the expense of the labor market and economic growth, and the September policy meeting will be watched with bated breath. Whether or not inflation has peaked remains unknown, but data suggests the worst may be behind us. There are signs of supply chain pressures easing. For example, the Baltic Dry Index, which measures the cost of shipping raw materials, has declined to levels not seen since the

middle of 2020³. That said, we are likely to continue to experience inflation levels above the Fed's two percent target for some time and recession watchers will likely be keeping a keen eye on a moderating economy. As we highlighted in our Q3 Outlook webinar <https://vimeo.com/730103526>, corrections and recessions, while often uncomfortable, are not abnormal. Maintaining a disciplined and long-term approach to investing, in our view, affords the best opportunity to achieve one's long-term investment objectives.

For more information, please contact any of the professionals at [Veracity Capital](#).

Comparisons to any indices referenced herein are for illustrative purposes only and are not meant to imply that actual returns or volatility will be similar to the indices. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect our fees or expenses.

- **The S&P 500** is a capitalization-weighted index designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.
- **Russell 2000** consists of the 2,000 smallest U.S. companies in the Russell 3000 index.
- **MSCI EAFE** is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. The index covers approximately 85% of the free float-adjusted market capitalization in each country.
- **MSCI Emerging Markets** captures large and mid-cap representation across Emerging Markets countries. The index covers approximately 85% of the free-float adjusted market capitalization in each country.
- **Bloomberg U.S. Aggregate Index** covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities.
- **Bloomberg U.S. Corporate High Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included.
- **FTSE NAREIT Equity REITs Index** contains all Equity REITs not designed as Timber REITs or Infrastructure REITs.
- **Bloomberg Commodity 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.

³ FactSet. As of August 30, 2022.



DISCLOSURE:

Advisory services offered through Veracity Capital, LLC, a registered investment advisor. Information presented is for educational purposes only and does not intend to make an offer or solicitation for the sale or purchase of any specific securities, investments, or investment strategies. Investments involve risk and, unless otherwise stated, are not guaranteed. Be sure to first consult with a qualified financial advisor and/or tax professional before implementing any strategy discussed herein. Past performance is not indicative of future performance.

This performance report provides information regarding the accounts managed by Veracity Capital, LLC, in accordance with your investment objectives. You should communicate any changes to your current investment objectives or financial condition to Veracity Capital, LLC.

Past performance is not indicative of future performance. Principal value and investment return will fluctuate. No guarantees or assurances that the target returns will be achieved, or objectives will be met, are implied. Future returns may differ significantly from past returns due to many different factors. Investments involve risk and the possibility of loss of principal. The values and performance numbers represented in this report do not reflect management fees. The values used in this report were obtained from sources believed to be reliable. Veracity Capital, LLC, calculated performance numbers using data provided. Please consult your custodial statements for an official record of value.

This information may be taken, in part, from external sources. We believe these external sources to be reliable, but no warranty is made as to accuracy. This material is not financial advice or an offer to sell any product. There is no guarantee of the future performance of any Veracity Capital, LLC, portfolio. The investment strategies discussed may not be suitable for all investors. Before investing, consider your investment objectives and Veracity Capital, LLC, charges and expenses. All investment strategies have the potential for profit or loss.

Benchmarks: The index / indices used by Veracity Capital, LLC, have not been selected to represent an appropriate benchmark to compare an investor's performance, but rather are disclosed for informational purposes. Detailed information regarding the indices is available upon request. The volatility of the indices may be materially different than that of the portfolio.

Veracity Capital, LLC, is a registered investment advisor. Registration does not imply a certain level of skill or training. More information about Veracity Capital, LLC, including its advisory services and fee schedule, can be found in Form ADV Part 2 which is available upon request.