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## MARKET COMMENTARY

October 1, 2022

The equity and fixed income markets remain under increased pressure, as multi-decade events combine to drive interest rates higher and stock prices lower. A direct impact of higher rates is a stronger dollar, which makes our imports, such as oil, much cheaper. However, a strong dollar places pressure on the exports of American multi-national corporations. As these become more expensive, the outlook for future earnings decreases and causes the present value of stocks to lose value.

As of September 30th, the Dow Jones Industrial Average closed at 28,725.51, a decrease of 20.9%. The S&P 500 ended at 3,585.62, down 24.8%. The NASDAQ decreased 32.4%, resting at 10,575.62. The Bloomberg Aggregate Bond Index closed lower by 14.6%. The market reached a temporary bottom in June and appeared to be rebounding. In August, Fed Chairman Jerome Powell stated that the central bank would take whatever action was necessary to get inflation under control. If the Federal Reserve continues to raise interest rates, the cost of capital will increase and the amount of borrowing by consumers and business will decrease. This is especially true for housing and automobile financing. These two industries, with their supply chains, combine to make up 25% America's gross domestic product. A 30-year mortgage for \$300,000 with an interest rate of 3.2% costs the homeowner \$1,297.40 per month. The same mortgage with a rate of 6.4% increases the monthly payment to \$1,876.52. As the median price of a new home in the United States is \$400,000, lending activity is already rapidly decreasing.

Slowing economic output is the plan of the Federal Reserve to stop the inflation that the central bank created at the beginning of this business cycle. Combined with massive federal spending, inflation is now at levels not seen since the 1970's. The highest expense of managing any business is payroll. Many companies that have seen wages increase are beginning to lay off employees to cut expenses and remain profitable.

The war in eastern Europe continues to move in Ukraine's favor. The West has been especially helpful with supplying artillery and ammunition to the Ukrainian army. Artillery inflicts more casualties on infantry and non-armored vehicles than any other battlefield weapon. This deployment has helped turn the tide in favor of Ukraine. The recent call of 300,000 reservists by Vladimir Putin will only be effective if the Russian army is able to train and properly equip these conscripts prior to sending them into battle. Analysts estimate that Russia has suffered 80,000 casualties in the conflict thus far. Many of these troops represent the best and most experienced soldiers, who are impossible to replace with troops given only a few weeks' training. The age of these new draftees ranges from 18 to 63 years old. Russia may need to develop a new strategy.

We hope you had a most enjoyable summer. Your patience with the capital markets is greatly appreciated.

David R. Breuhan  
Vice President

The reference to any stock, bond or mutual fund does not amount to a recommendation to buy or sell. Source for data is *The Wall Street Journal* and *Bloomberg*.