JJB
JJ BURNS

"You damn right, I've got the blues / From my head down to my shoes" **Buddy Guy, *"Damn Right, I've Got The Blues"***

Every investor is now aware that this is shaping up to be a difficult year for global-equity and -bond markets. The current pace for equities would result in the worst calendar-year returns for U.S. stocks since 2008 (-37% with dividends), and worse than any of the three negative years following the bursting of the Tech Bubble in 2000. Bonds are on track for their worst year in four decades (and possibly since the late 1700s), as well as their first back-to-back annual declines. Inflation is high around the globe, and though a number of factors are pushing prices higher, one major contributor is the Ukraine war food- and energy-chain supply disruptions and the resultant politics surrounding them. The major 'weapon' central banks have unleashed to combat high inflation is interest-rate increases, which have had a chilling effect on equity and bond markets. If it wasn't clear, the U.S. Fed sets the mood and spikes the punch at parties (i.e., lowers rates) and takes the punchbowl away much later in the festivities (i.e., raises rates). It should also be clear that debt financing and interest rates are what investors should focus on as indicators of economic health. A summary of results follows:

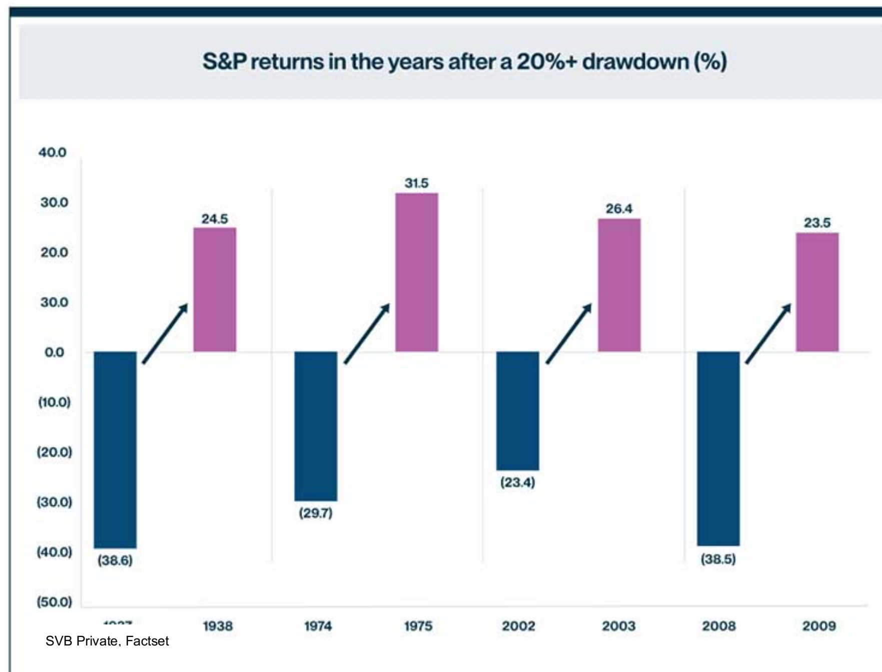
Index Returns
as of 9/30/2022

Index	YTD	Q3 2022	Q2 2022	2021
BbgBarclays US HY 2% Issuer Cap	<14.73%>	<0.64%>	<9.84%>	5.26%
BbgBarclays Municipal	<12.13%>	<3.46%>	<2.94%>	1.52%
BbgBarclays Global Aggregate	<12.09%>	<3.34%>	<4.30%>	<1.39%>
BbgBarclays US Agg Bond	<14.61%>	<4.75%>	<4.69%>	<1.54%>
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	<24.59%>	<4.61%>	<16.67%>	26.45%
Russell 2000 [Small-cap Stocks]	<25.10%>	<2.19%>	<17.20%>	14.82%
S&P 500	<23.87%>	<4.88%>	<16.10%>	28.71%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	<26.50%>	<9.91%>	<13.73%>	7.82%
MSCI EAFE NR [Developed Markets]	<27.09%>	<9.36%>	<14.51%>	11.26%
MSCI EM NR [Emerging Markets]	<27.16%>	<11.57%>	<11.45%>	<2.54%>
REAL ASSETS				
U.S. Dollar	16.83%	7.10%	6.48%	6.71%
Morningstar US Real Asset Index	<8.56%>	<7.49%>	<7.51%>	<3.51%>
Bloomberg Commodity	<13.85%>	<6.27%>	<9.38%>	21.49%
S&P GSCI Gold Spot	13.57%	<4.11%>	<5.66%>	27.11%
S&P GSCI Crude Oil Spot	5.69%	<24.84%>	5.46%	55.01%
S&P United States REIT	<28.15%>	<9.96%>	<16.88%>	43.05%
S&P Global Ex US REIT	<30.05%>	<13.01%>	<17.28%>	13.53%

Source: Morningstar, Inc. USD data with dividends and interest

"I get knocked down, but I get up again / You're never gonna keep me down"
Chumbawamba, *"Tubthumping"*

Investors and policymakers (including the Fed) are focused on data right now, hoping to divine signs from various trends and datapoints that point to directions in prices, employment, growth and elections. Rather than revisit data we've recently discussed, we'll emphasize that the environment offers the opportunity to focus on the future. Most investors in market downturns think defense: sell stocks, buy bonds, hold high cash balances and delay financial decisions until things 'look good' again. The 'good' signs usually are an end to a recession highlighted by falling unemployment, positive GDP growth, rising stock markets and falling interest rates. We see current sentiment pointing to a near-term pullback, and echo the sentiments of a market pundit who advises investors to "look for things to be getting better" rather than a specific inflection point or a 'good' environment (usually a sharp rebound in stock prices) to invest. This translates to having a rebound mindset now, and we think much (though not *all*) of the market pain is behind us. We also know timing markets is a risky endeavor at best, so we offer an example of why being *prepared* to go on offense is the best strategy for long-term planning:



This chart demonstrates the returns of the S&P price index in the year following a 20% or greater loss. Stocks tend to be a leading indicator, so the rebounds shown above also indicate some revitalization in the datapoints we mentioned earlier. Please note that this is NOT a prediction on next year's market returns, but is an illustration of past results at times of extreme inflections and pessimism. The markets are currently pricing in higher unemployment and interest rates, inflation, lower earnings, and a recession. We think these issues facing the global economy, while serious, are fixable.

Take a look at the 'two markets' of 2009 in more detail:

THE TWO DIFFERENT MARKETS in 2009						
Period	**Total Return**	**Avg. Day**	**Down Days**	**Up Days**	**High Day**	**Low Day**
BEAR 1/01 - 3/09	(25.10%)	(0.59%)	25	20	4.35%	(5.28%)
BULL 3/10 -12/31	64.83%	0.25%	88	120	7.08%	(4.28%)

SOURCE: Morningstar, Inc. and JJ Burns

We can see a tale of two markets in one year, the winter bear and the resounding bull. An accounting-change trigger on March 9 of 2009 spurred markets to roar back for the rest of the year. Sideline investors thinking the March and April results were head feints missed the beginning of the long recovery rally. Again, this is not a prediction, but an illustration of the benefit of staying in the game.

“This is the craziest party / That could ever be / Don't turn on the lights / 'Cause I don't wanna see” Three Dog Night, *“Mama Told Me (Not to Come)”*

In a normal economic correction, quality bond yields are flat or slightly up, acting as a pressure-relief valve for investors in classic 60/40 portfolios. The general strategy is for investors to sell bonds (usually high-quality government and corporate issues) and buy stocks when prices fall. That has not been an effective strategy in this environment, as global central banks have kept short-term rates low and bought bonds in the market since the Financial Crisis to help reflate asset prices. This policy has been extremely effective, as stocks soared in the past decade and investors and bond-issuers enjoyed low financing costs to the detriment of savers.

Central banks are now scrambling to make up for lost time by trying to quickly cool the global economy and tame inflation without causing recession(s), the ‘soft landing’ referred to in the media. This is a difficult task in the best of times, and is now made more so as rates and inflation have been low for so long. Consumers, states and municipalities and corporations flush with cash exacerbated the situation, and the Fed in particular is raising rates aggressively (five hikes this year totaling 3.00% with three of 0.75%) to cool the economy and spending. This has affected housing and stock prices, but has not yet dampened inflation or caused substantial job losses, so there’s a ways to go for real economic pain to set in. These hikes are the most aggressive hikes (three consecutive at 0.75%) since 1994. The benchmark U.S. 10-year Treasury started 2022 at 1.52% and recently topped 4.00%, the highest level in a decade. The Fed really controls rates in short-maturity paper, so the UST 10 reflects the *market’s* less-than-sanguine expectations about growth, inflation, and recession.

As optimists, we must note there is a silver lining to this somber bond data. Since May of 2000, the Fed has lowered the Fed Funds rate 28 times. Excluding the two (2) reductions in 2020 due to COVID, the Fed has lowered 26 times in two decades. Here’s a summary of Fed rate decreases since 2000:

Non-COVID Fed Rate Decreases			
Decrease (bps)	25	50	75
Count	10	14	2

Over 60% of the changes are reductions of 0.50% or more. Here are two significant takeaways:

1. The Fed acts aggressively in deteriorating economic environments and drops rates quickly.
2. Investors with longer-maturity bonds will tend to do better than owners of cash or short-term bonds.

As troubling as things might seem now for stocks and bonds, there are reasons why each asset class is performing poorly, and each has a more robust path forward despite expected future volatility.

“People get ready, there's a train a-comin' / You don't need no baggage, you just get on board” Curtis Mayfield and The Impressions, *“People Get Ready”*

These are unusual times for investors as the many pattens we’ve relied on in recent years are being re-shaped by a number of factors, the most harmful being the COVID pandemic. Answers and clear

direction aren't easy to come by, but staying engaged and in the game will definitely ease transitions and smooth bumpy markets. This implies that the best defense in this period is to prepare to play good offense when investors are back on the field. Staying engaged and getting prepared is a mental exercise, shedding negative tendencies generated by fear and doubt and taking small victories as they're available. We've been actively managing cash balances, making portfolio adjustments, taking tax losses and preparing to rebalance accounts to get ready for our moment back in the game. These are defensive actions that will make for better outcomes when we reach the other side of the Great Recalibration.

As always, we welcome your comments, questions and feedback, and thank you for your trust in us.

- Your Wealth Management Team at JJ Burns & Company

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Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities.

The Citi World Government Bond Index (WGBI) provides a broad benchmark for the global sovereign fixed income market. It measures the performance of fixed-rate, local currency, investment grade sovereign bonds, currently includes sovereign debt from over 20 countries denominated in a variety of currencies.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global REITis a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The MSCI ACWI index captures large and mid-cap representation across 23 Developed Markets (DM) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.