



CAPSTONE  
FINANCIAL ADVISORS

## Quarterly Market Review



Q3 2022



# Quarterly Market Review

THIRD QUARTER 2022

- ❑ This report features Capstone market commentary, world capital market performance data, and a timeline of events for the past quarter.
- ❑ It starts with our commentary about what's been happening lately in the markets.
- ❑ It contains returns data for major public market asset classes including equities (stocks), fixed income (bonds), real estate (REITs), and commodities.
- ❑ It concludes with our updated market outlook.

## CONTENTS:

3		Market Review – Capstone Commentary
4,5		Market Returns Summary
6,7		World Stock Market Performance with Headlines
8		US Stocks
9		International Developed Stocks
10		Emerging Markets Stocks
11		Country Returns
12		Real Estate Investment Trusts (REITs)
13		Commodities
14		Fixed Income
15		Global Fixed Income
16,17		Market Outlook – Capstone Commentary

# Market Review

## CAPSTONE COMMENTARY



### STOCKS AT FIRST RALLIED BUT THEN DECLINED IN THE THIRD QUARTER AMID PERSISTENTLY HIGH INFLATION

- ❑ The stock market rally that started in mid-June continued until mid-August, with the global stock market up more than 13%.<sup>1</sup>
- ❑ Corporate earnings reports released throughout July and August showed many companies did better than expected in the second quarter despite rising inflation and supply-chain issues.
- ❑ Then in August, Federal Reserve Chairman Jerome Powell adopted a sterner tone in describing the central bank's determination to fight persistently high inflation.
- ❑ This more "hawkish" Fed stance and increased recession fears weighed on investors and started a stock sell-off that continued to the end of the quarter.

### SIMILARLY, BONDS STARTED THE QUARTER UP BUT REVERSED COURSE AS THE OUTLOOK FOR INTEREST RATES SHIFTED HIGHER ONCE AGAIN

- ❑ Bond prices broadly appreciated in July as concerns about future economic growth lowered longer-term bond yields. Slower growth concerns resulted in bond markets pricing in the possibility of the Fed cutting interest rates as soon as next year.
- ❑ However, midway through the quarter, amid a still strong economy and broadening inflation pressures, the Fed had to adjust its forward guidance to emphasize a "high-interest rates for longer" approach.
- ❑ The Fed also raised the ending target range for its policy rate to 4.25-to-4.50% by the end of the year, and 4.5-to-4.75% by early 2023.
- ❑ The surprise upward shift in interest rate expectations resulted in bond markets broadly finishing the quarter down.

<sup>1</sup> Source: Morningstar Direct. Global stocks represented by the MSCI All-Country-World Investible Market Index NR USD, appreciated 13.34% from 06/17/2022 to 08/16/2022..

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# Market Returns Summary (Q3)

## INDEX RETURNS



















	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q3 2022	STOCKS				BONDS	
	-4.46%	-9.20%	-11.57%	-11.12%	-4.75%	-2.21%
Since Jan. 2001						
Average Quarterly Return	2.1%	1.3%	2.4%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	2020 Q2	2009 Q2	2009 Q2	2009 Q3	2001 Q3	2008 Q4
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	2008 Q4	2020 Q1	2008 Q4	2008 Q4	2022 Q1	2022 Q1

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved. Bloomberg data provided by Bloomberg.



# Market Returns Summary (Long-Term)

INDEX RETURNS AS OF SEPTEMBER 30, 2022

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>1 Year</b>	<b>STOCKS</b>				<b>BONDS</b>	
	-17.63%	-23.91%	-28.11%	-20.49%	-14.60%	-9.86%
						
<b>5 Years</b>						
	8.62%	-0.39%	-1.81%	0.17%	-0.27%	0.71%
						
<b>10 Years</b>						
	11.39%	3.62%	1.05%	3.58%	0.89%	2.21%
						

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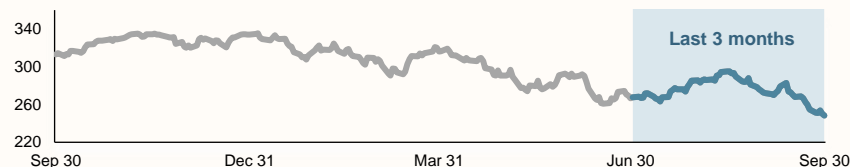
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved. Bloomberg data provided by Bloomberg.



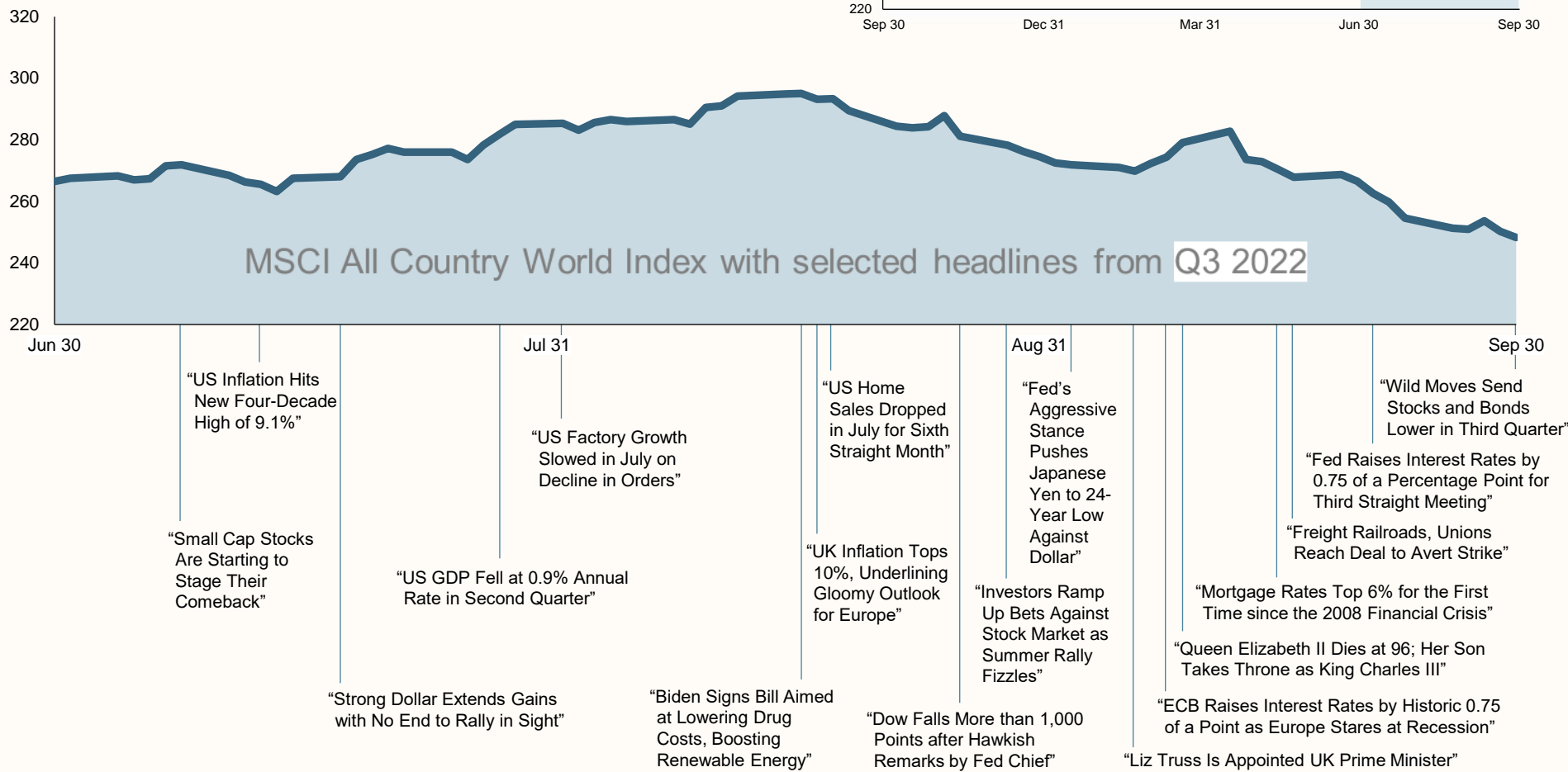
# World Stock Market Performance

## MSCI ALL COUNTRY WORLD INDEX WITH SELECTED HEADLINES FROM Q3 2022

1 YEAR (Q4 2021–Q3 2022)



Q3 2022



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

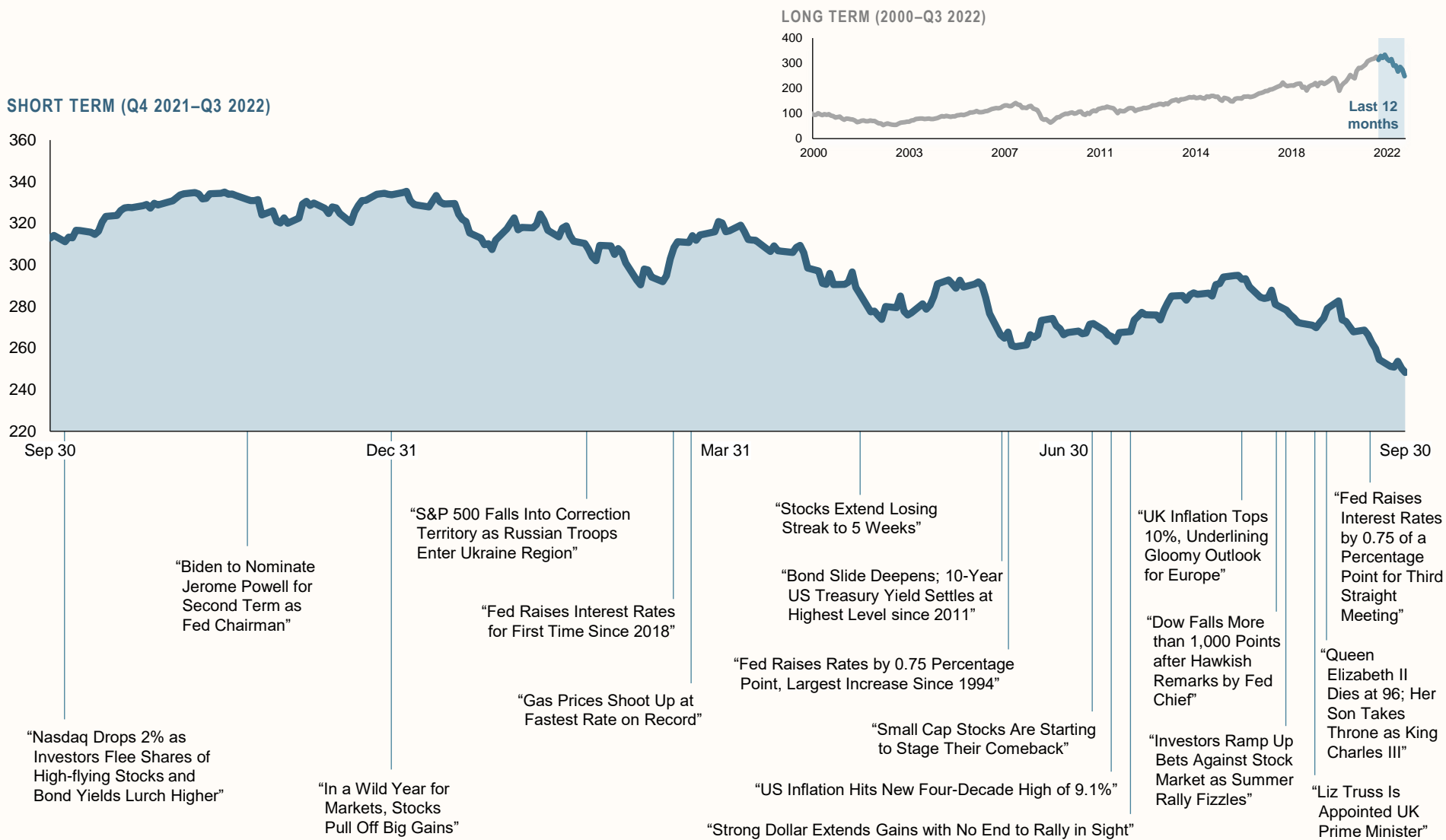
Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2022, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.



# World Stock Market Performance

MSCI ALL COUNTRY WORLD INDEX WITH SELECTED HEADLINES FROM PAST 12 MONTHS



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2022, all rights reserved.

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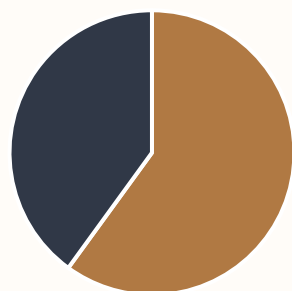


# US Stocks

## THIRD QUARTER 2022 INDEX RETURNS

- ❑ The U.S. equity market posted negative returns for the quarter and outperformed both non-U.S. developed and emerging markets.
- ❑ Value underperformed growth.
- ❑ Small caps outperformed large caps.

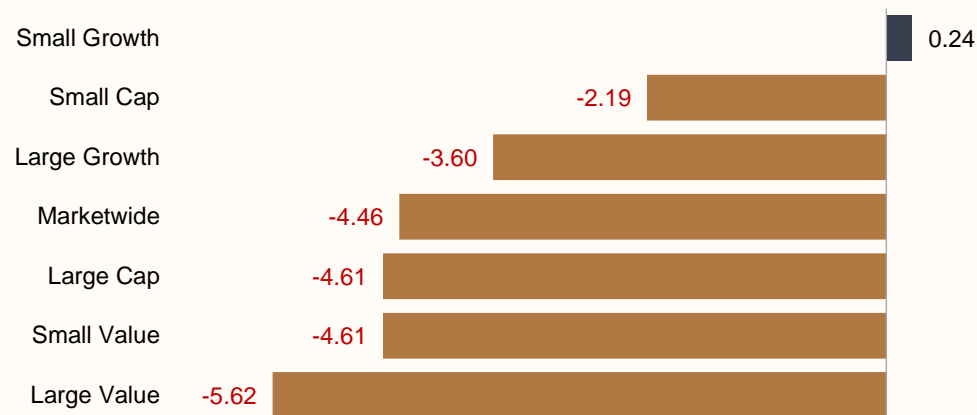
### WORLD MARKET CAPITALIZATION—US



**61%**

US Market  
\$35.6 trillion

### Q3 '22 RANKED RETURNS (%)



### PERIOD RETURNS (%)

\* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Growth	0.24	-29.28	-29.27	2.94	3.60	8.81
Small Cap	-2.19	-25.10	-23.50	4.29	3.55	8.55
Large Growth	-3.60	-30.66	-22.59	10.67	12.17	13.70
Marketwide	-4.46	-24.62	-17.63	7.70	8.62	11.39
Large Cap	-4.61	-24.59	-17.22	7.95	9.00	11.60
Small Value	-4.61	-21.12	-17.69	4.72	2.87	7.94
Large Value	-5.62	-17.75	-11.36	4.36	5.29	9.17

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Value (Russell 1000 Value Index), Large Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Value (Russell 2000 Value Index), and Small Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved.





# International Developed Stocks

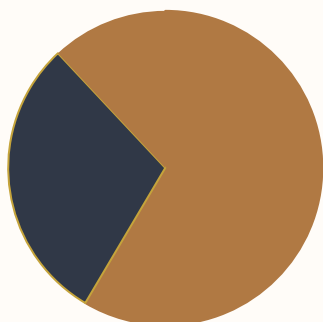
## THIRD QUARTER 2022 INDEX RETURNS

- ❑ Developed markets outside of the U.S. posted negative returns for the quarter and underperformed the U.S. market, but outperformed emerging markets.
- ❑ Value underperformed growth.
- ❑ Small caps underperformed large caps.
- ❑ Significant U.S. dollar appreciation negatively impacted developed market returns measured in U.S. currency.

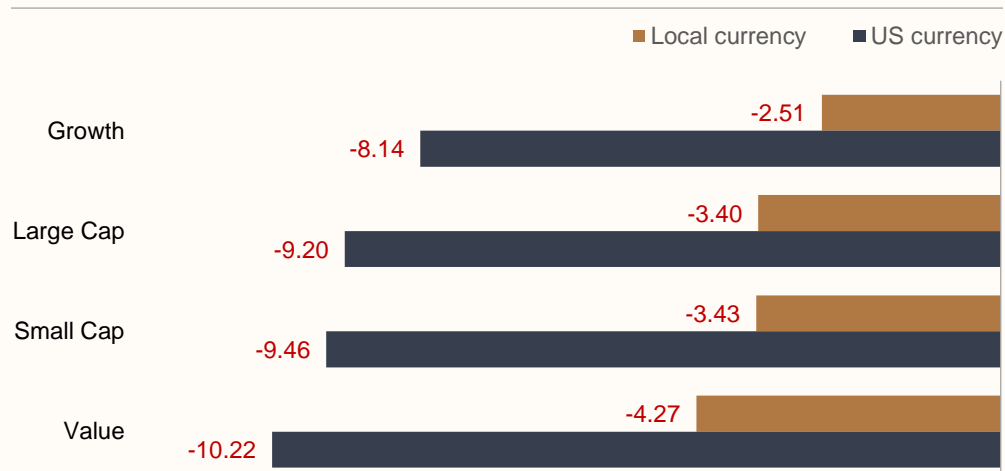
### WORLD MARKET CAPITALIZATION—INTERNATIONAL DEVELOPED

28%

International  
Developed Market  
\$16.2 trillion



### Q3 '22 RANKED RETURNS (%)



### PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	* Annualized		
				3 Years*	5 Years*	10 Years*
Growth	-8.14	-32.33	-29.44	-1.14	0.85	4.46
Large Cap	-9.20	-26.23	-23.91	-1.21	-0.39	3.62
Small Cap	-9.46	-31.07	-30.80	-1.27	-1.24	4.78
Value	-10.22	-20.10	-18.58	-1.97	-2.08	2.53

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Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market. MSCI data © MSCI 2022, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

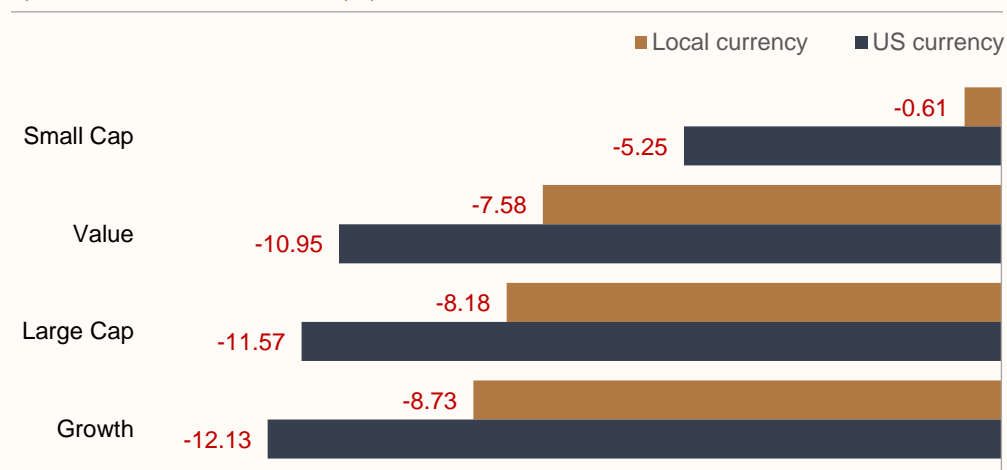


# Emerging Markets Stocks

## THIRD QUARTER 2022 INDEX RETURNS

- ❑ Emerging markets posted negative returns for the quarter and underperformed both US and non-US developed markets.
- ❑ Value outperformed growth.
- ❑ Small caps outperformed large caps.
- ❑ Significant U.S. dollar appreciation negatively impacted emerging market returns measured in U.S. currency.

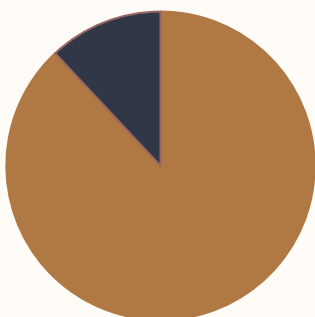
### Q3 '22 RANKED RETURNS (%)



### WORLD MARKET CAPITALIZATION—EMERGING MARKETS

11%

Emerging Markets  
\$6.6 trillion



### PERIOD RETURNS (%)

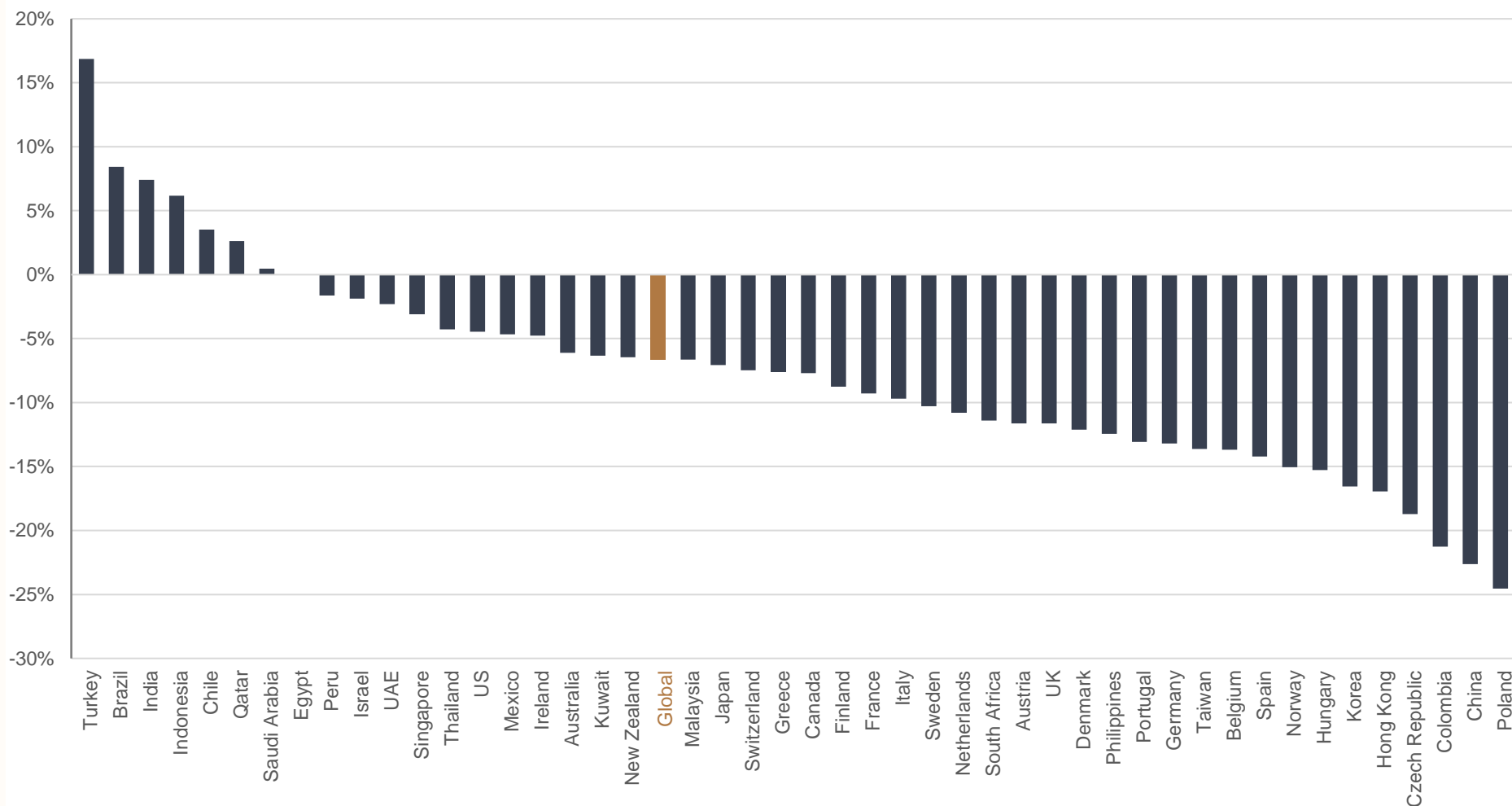
Asset Class	* Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	-5.25	-24.23	-23.23	5.54	1.25	2.91
Value	-10.95	-23.32	-23.63	-2.57	-2.13	-0.41
Large Cap	-11.57	-27.16	-28.11	-2.07	-1.81	1.05
Growth	-12.13	-30.65	-32.09	-1.75	-1.64	2.38

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2022, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.



# Country Returns

## THIRD QUARTER 2022 INDEX RETURNS



Past performance is no guarantee of future results.

Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved.

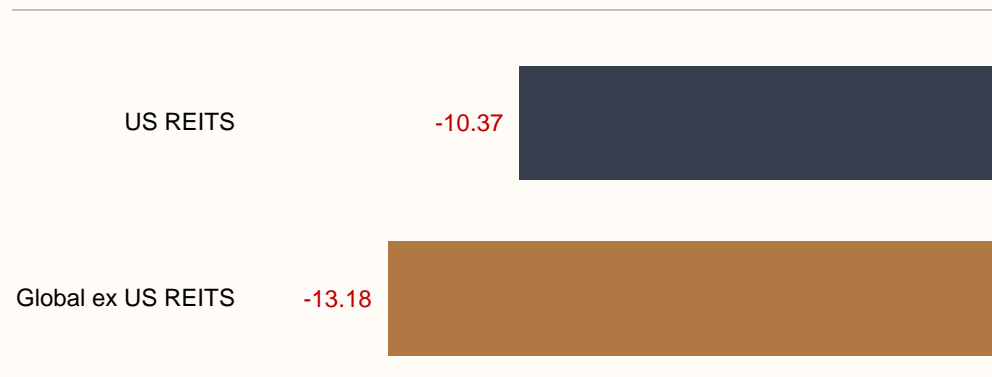


# Real Estate Investment Trusts (REITs)

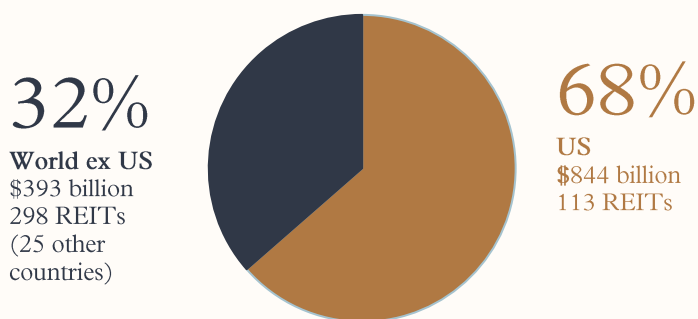
## THIRD QUARTER 2022 INDEX RETURNS

- REIT markets broadly underperformed stock markets during the quarter.
- US REITs outperformed non-US REITs.

### Q3 '22 RANKED RETURNS (%)



### TOTAL VALUE OF REIT STOCKS



### PERIOD RETURNS (%)

Asset Class	* Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	-10.37	-29.32	-17.15	-3.29	1.95	5.49
Global ex US REITs	-13.18	-30.48	-27.32	-9.72	-3.01	1.12

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# Commodities

## THIRD QUARTER 2022 INDEX RETURNS

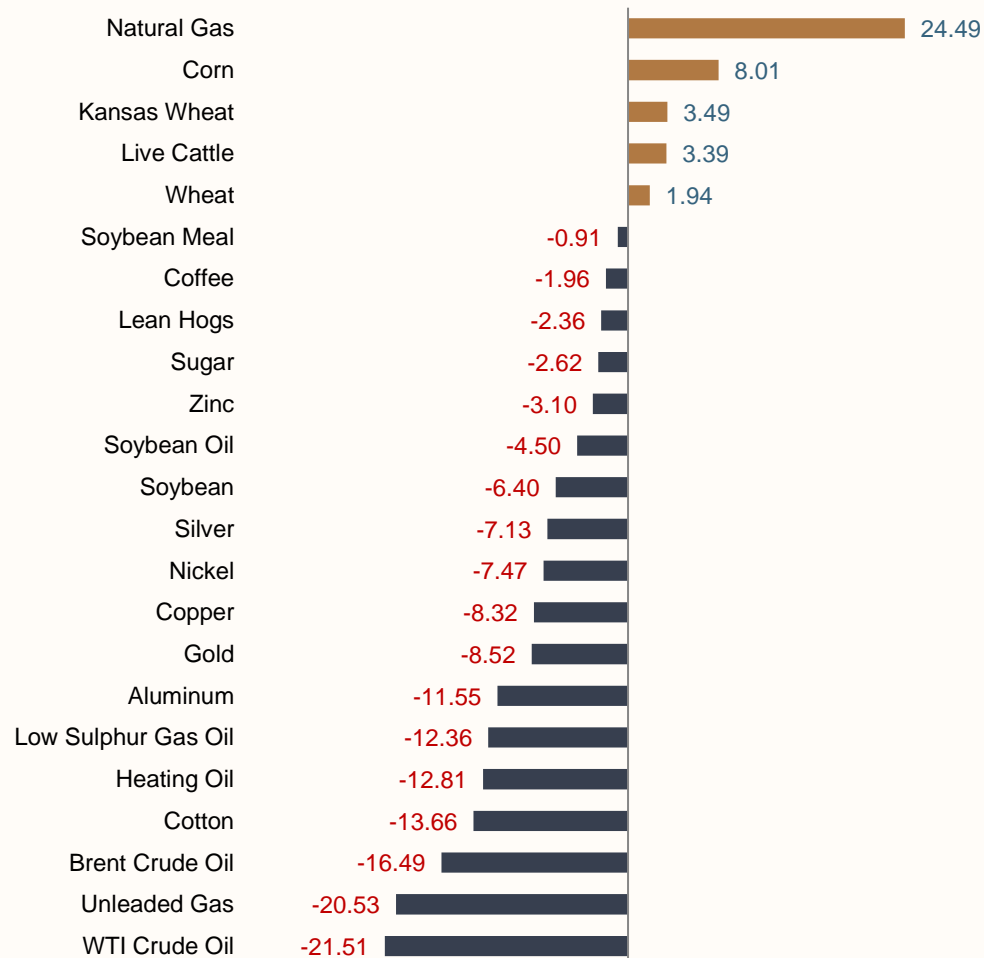
- ❑ Commodities broadly fell -4.11% for the third quarter of 2022.
- ❑ WTI Crude Oil and Unleaded Gas were the worst performers, returning -21.51% and -20.53% during the quarter, respectively.
- ❑ Natural Gas and Corn were the best performers, returning +24.49% and +8.01% during the quarter, respectively.

### PERIOD RETURNS (%)

\* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-4.11	13.57	11.80	13.45	6.96	-2.14

### RANKED RETURNS (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

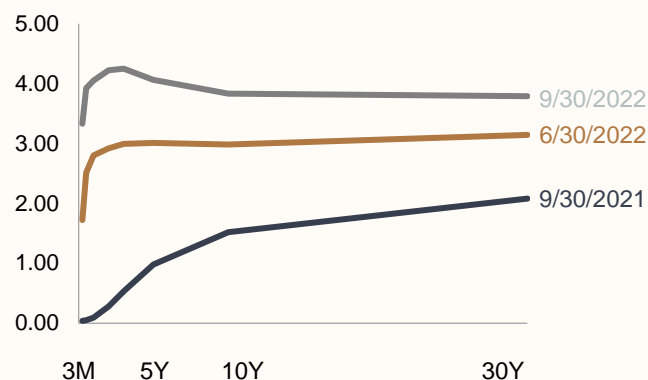


# Fixed Income

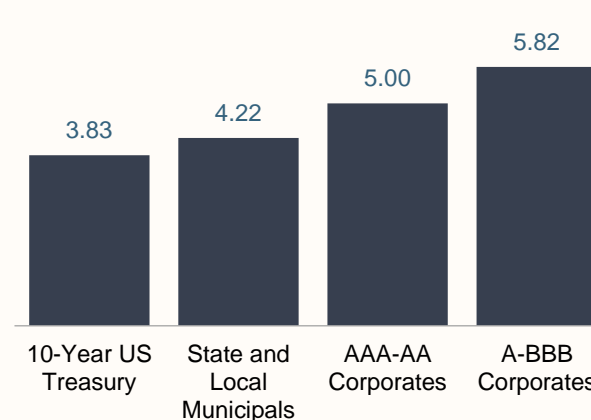
## THIRD QUARTER 2022 INDEX RETURNS

- Interest rates increased across all bond maturities in the US Treasury market for the quarter.
- The yield on the 5-Year US Treasury Note increased 105 basis points (bps) to 4.06%. The yield on the 10-Year US Treasury Note increased 85 bps to 3.83%. The yield on the 30-Year US Treasury Bond increased 65 bps to 3.79%.
- On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 151 bps to 2.79%, while the 1-Year US Treasury Bill yield increased 125 bps to 4.05%. The yield on the 2-Year US Treasury Note increased 130 bps to 4.22%.
- In terms of total returns, short-term corporate bonds returned -1.94% and intermediate-term corporate bonds returned -3.11%.<sup>1</sup>
- The total return for short-term municipal bonds was -1.88% and -2.65% for intermediate-term municipal bonds.

US TREASURY YIELD CURVE (%)



BOND YIELD ACROSS ISSUERS (%)



PERIOD RETURNS (%)

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
ICE BofA US 3-Month Treasury Bill Index	0.46	0.61	0.62	0.59	1.15	0.68
ICE BofA 1-Year US Treasury Note Index	-0.50	-1.77	-1.95	0.18	0.94	0.67
Bloomberg U.S. High Yield Corporate Bond Index	-0.65	-14.74	-14.14	-0.45	1.57	3.94
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-1.79	-5.03	-5.53	-0.87	0.63	0.96
Bloomberg Municipal Bond Index	-3.46	-12.13	-11.50	-1.85	0.59	1.79
Bloomberg U.S. Aggregate Bond Index	-4.75	-14.61	-14.60	-3.26	-0.27	0.89
FTSE World Government Bond Index 1-5 Years	-4.77	-12.10	-13.34	-3.33	-1.83	-1.74
Bloomberg U.S. TIPS Index	-5.14	-13.61	-11.57	0.79	1.95	0.98
Bloomberg U.S. Government Bond Index Long	-9.60	-28.77	-26.60	-8.48	-1.62	0.60

\*Annualized

1. Bloomberg US Corporate Bond Index.

2. Bloomberg Municipal Bond Index.

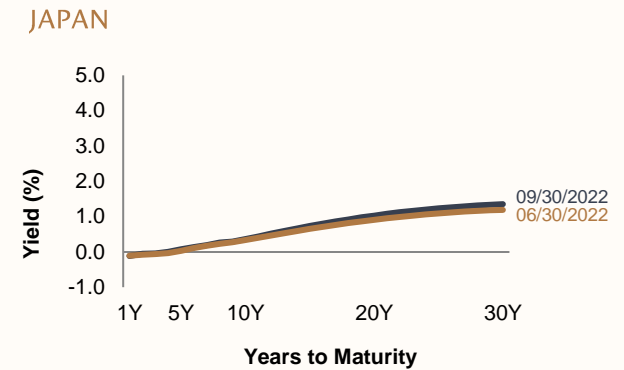
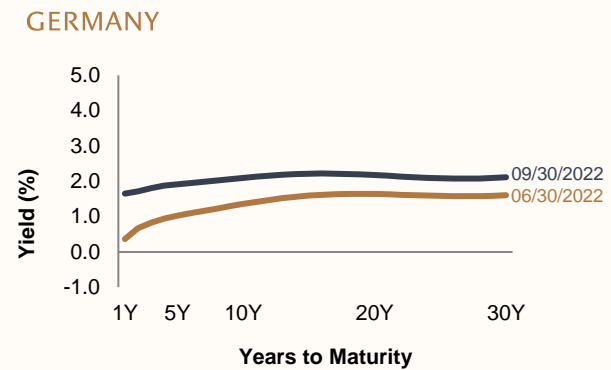
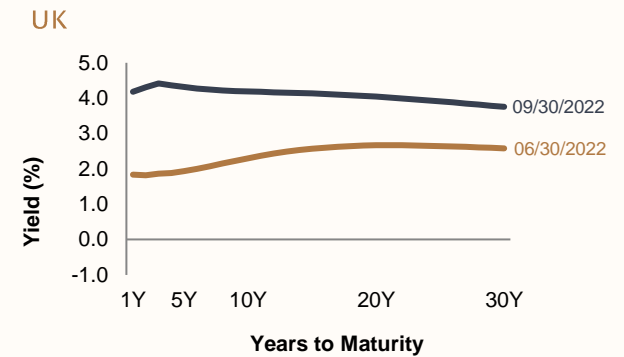
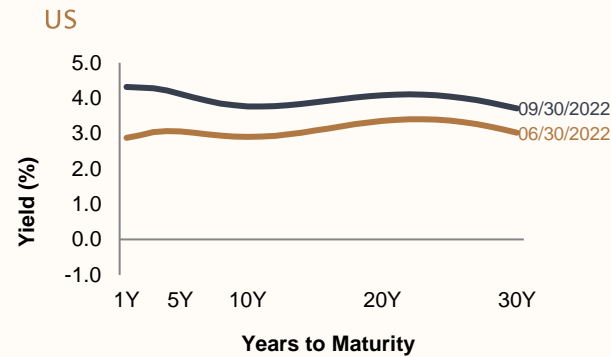
One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2022 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2022 ICE Data Indices, LLC. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.



# Global Fixed Income

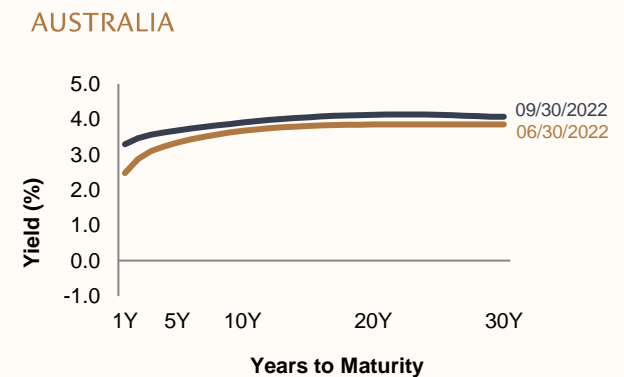
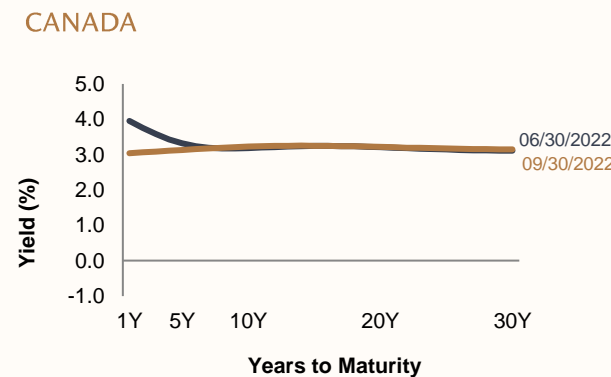
## THIRD QUARTER 2022 YIELD CURVES

- Interest rates generally increased within global developed markets for the quarter.
- In Japan, short-term nominal interest rates remained negative. In Canada, the short-term segment of the yield curve inverted.



### CHANGES IN YIELDS (BPS) SINCE 6/30/22

	1Y	5Y	10Y	20Y	30Y
US	143.7	106.4	86.3	72.8	68.6
UK	235.1	238.0	188.6	137.8	117.5
Germany	128.0	88.7	73.9	53.5	50.9
Japan	-1.1	4.4	2.6	12.1	15.7
Canada	90.6	18.6	-4.1	-0.6	-3.5
Australia	81.1	34.8	23.4	27.6	22.6



# Market Outlook

## CAPSTONE COMMENTARY



### STOCK MARKET VOLATILITY IS LIKELY TO REMAIN BUT A RECOVERY COULD START SOON

- ❑ In the near-term, stock markets will likely remain volatile amid the current state of uncertainty. Volatility means there is potential for sharp declines and strong rallies, like in the third quarter.
- ❑ Worse-than-expected changes in central bank monetary policy and corporate earnings guidance will likely drive downside volatility. On the other hand, signs of progress in fighting inflation and indications of a milder-than-expected economic slowdown will likely cause market rallies, eventually resulting in a full-fledged bull market recovery
- ❑ Although no one can accurately predict or pinpoint a market bottom, considering how much stock markets have already declined amid extremely low investor sentiment, we think it's safe to say that we're close to one.
- ❑ Bear markets like the one we're currently in, caused by central banks raising interest rates to cool the economy and inflation, have historically averaged around 30% declines from peak to trough; the global stock market has already declined nearly 26% this year.<sup>2</sup>
- ❑ Moreover, given that interest rate expectations have risen materially, markets have already factored in an economic slowdown and ensuing earnings declines. As such, stocks will soon begin a new bull market recovery at first signs that central banks are slowing the economy enough to meaningfully ease inflation.

<sup>2</sup> Source: Goldman Sachs Asset Management. Global stocks represented by the MSCI All-Country-World Investible Market Index NR USD, declined 25.82% from 01/03/2022 to 09/30/2022.

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# Market Outlook

## CAPSTONE COMMENTARY



### BOND MARKETS ARE LIKELY TO STABILIZE AND HIGHER YIELDS WILL BOOST FUTURE BOND RETURNS

- ❑ Despite material declines and what seems like a situation that is far from over, bond market losses are not likely to continue.
- ❑ Severe bond market volatility is likely to subside because the bond market has already discounted the Fed's aggressive shift in interest rate policy, including multiple (more restrictive) changes to the policy.
- ❑ Additionally, because interest rates have already significantly increased (for several months now), various inflation indicators and (more importantly) inflation expectations have been moderating. As such, material interest rate (and inflation) surprises are likely behind us, and the absence of these surprises will help stabilize bond markets.
- ❑ Although bond prices are down materially so far this year, the result is that current bond yields are now significantly higher (the highest in over a decade), which will increase bond returns in the future. For example, the aggregate U.S. bond market is now yielding close to 5%, and the U.S. municipal bond market is now yielding close to 7% on a taxable-equivalent basis.<sup>3</sup>
- ❑ These higher yields will help recoup the temporary principal loss incurred by bonds amid the transition to higher rates and ultimately shift bond returns materially higher than what they've been amid the ultra-low interest rate environment over the past several years.

<sup>3</sup> Source: Bloomberg, using yield-to-worst data as of 09/30/2022. The aggregate U.S. bond market is represented by the Bloomberg U.S. Aggregate Index and was yielding 4.75% as of 09/30/2022. The U.S. municipal bond market is represented by the Bloomberg Municipal Bond Index and was yielding 4.04% (6.82% tax-equivalent yield) as of 09/30/2022. The municipal tax-equivalent yield is calculated using a 40.8% tax bracket, which includes a 37.0% top federal marginal income tax rate and a 3.8% Net Investment Income Tax to fund Medicare.

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