Capital Markets Review
August 31, 2022

STRATEGIC ASSET ALLIANCE
THE INSURANCE INVESTMENT SPECIALIST

Summary Capital Market Commentary – August 2022

- **Developed market equities resumed their declines in August as it became clear that further substantial interest rate rises may be needed to tame inflation. Emerging market shares posted a modest gain, while global bond yields rose.**

- Equity Markets
  - US equities declined in August after Federal Reserve (Fed) chair Jerome Powell said the US central bank would need to keep monetary policy tight "for some time" in a bid to tackle soaring inflation. This dashed market hopes that further interest rate rises would be more modest and led to sharp falls in share prices and volatile trading throughout the month. US Congress passed the Inflation Reduction Act which aims to reduce inflation by curbing the deficit, as well as investing in domestic sources of clean energy.
  - Eurozone shares fell in August amid ongoing worries over inflation, particularly in the form of high gas and electricity prices. It looks to be a long winter as the energy crisis across Europe intensified amid worries over supply and high costs. Russia said it would halt the Nord Stream 1 pipeline, which supplies natural gas to Germany, for three days from 31 August (as of early September, the pipeline has not reopened). Meanwhile, several of France's nuclear reactors were offline for longer than expected after maintenance. Further upward pressure on power prices has come from this summer's drought as low water levels on the Rhine have affected the delivery of coal to coal-fired power plants.
  - The Japanese stock market rose in the first half of August driven by strong quarterly results and an anticipated peak in US inflation. The yen resumed its weakening trend against the US dollar, after the brief reversal seen in the second half of July. Investors were generally optimistic over some early signs, or hope, that US inflation may soon be approaching its peak. Conversely, but equally encouraging, are signs that Japanese inflation may be becoming entrenched at a moderate, but sustainable rate, after decades of deflation.
  - Asia ex Japan equities were weaker in August with declines in Hong Kong and South Korea offsetting gains in India and Indonesia. Hong Kong was the weakest market in the MSCI AC Asia ex Japan index in August amid losses among Chinese carmakers. Vehicle deliveries suffered from supply chain disruptions and weak consumer confidence, undermining the corporate earnings outlook. The alarming spread of Covid-19 throughout China also weakened sentiment, prompting fears of further lockdowns as the country continues to pursue a policy of zero-Covid.

Source: Schroders & SAA

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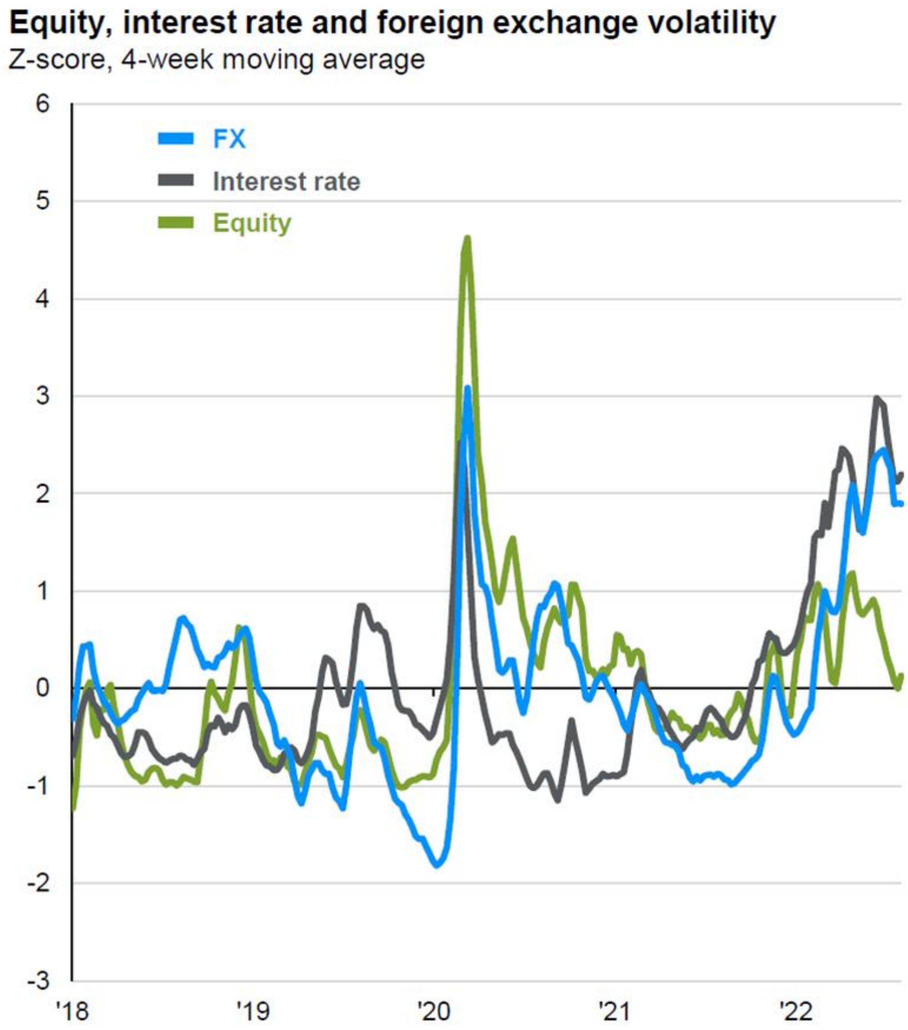
- Bond Markets
  - Bond yields rose sharply, meaning prices fell, as inflation remained elevated and central banks reaffirmed a commitment to reining in price increases.
  - The Federal Reserve (Fed) held its annual conference at Jackson Hole against a backdrop of multi-decade high consumer price inflation (CPI) across major economies. While concerns of an economic downturn are rising, Fed Chair Powell nevertheless stuck to a hawkish message. Powell said the Fed would not “pivot”, or shift course from raising rates, though the US may see slower growth for a “sustained period”. Data, particularly the labor market, has so far been remarkably resilient, although the housing market continued to deteriorate. The US 10-year Treasury yield rose from 2.64% to 3.13%, with the two-year rising from 2.90% to 3.45%..
  - In Europe, inflation remained high and members of the central bank’s executive board, speaking at Jackson Hole, said policy would need to remain tight for an extended period. Germany’s 10-year yield rose from 0.82% to 1.53%.

Source: Schroders & SAA

IMMEDIATE OUTLOOK

Asset class volatility trends

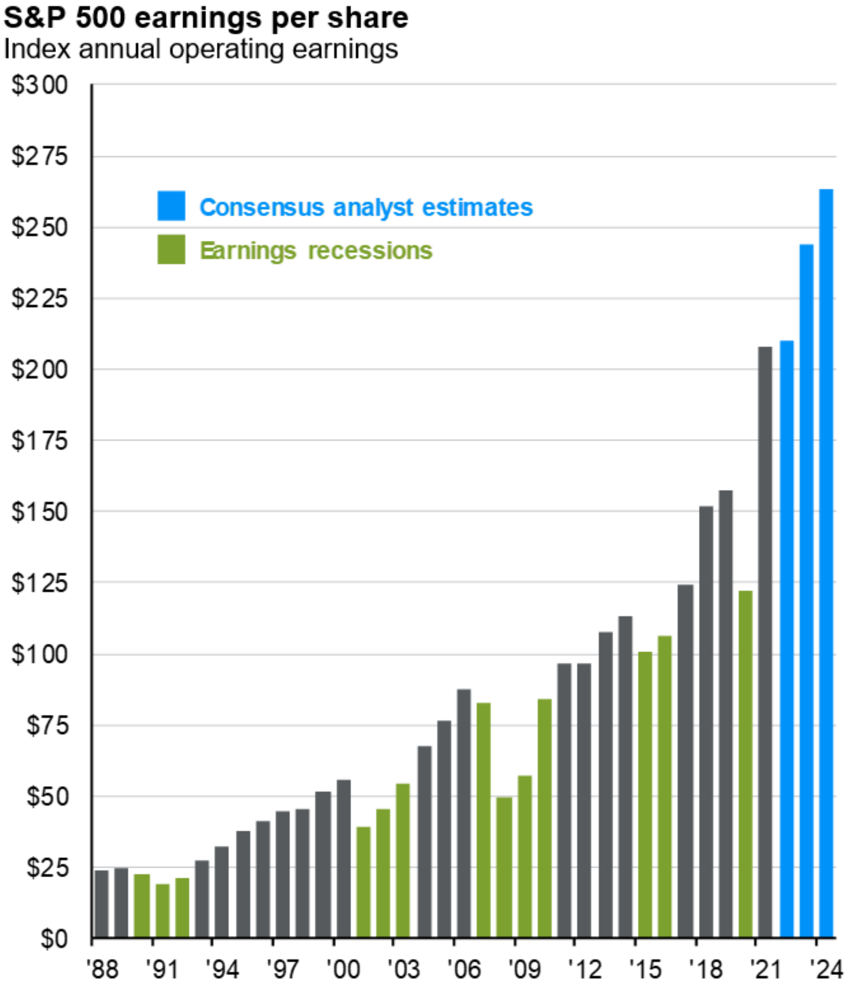


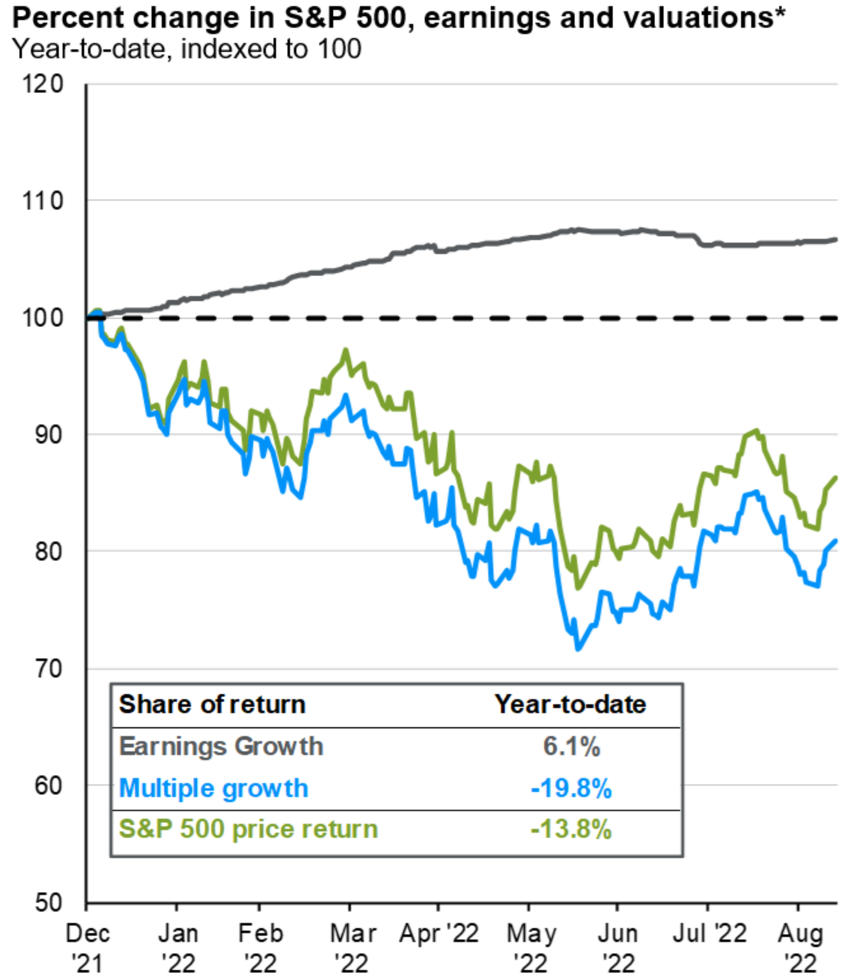
Key Take Aways:

- **Recent equity market volatility has been somewhat disconnected from the volatility across interest rate and foreign exchange markets. With the surprise Core CPI release on September 12th, equity market volatility may be poised to rise further and, perhaps, sharply during the final weeks of 2022.**

Source: CBOE, I BofA, JP Morgan Index Research, FactSet, J Morgan Asset Management. Equity is resented by the VIX Index, interest rate volatility is represented by the MOVE Index and foreign exchange volatility is represented by the JP Morgan Global FX Volatility Index. Data based on availability as of 8/31/2022.

Corporate profits and sources of total return





Key Take Aways:

- ❑ **Equity markets remain volatile and sensitive to headline risk even though corporate earnings growth has been positive for 2021/2022 and expected to remain so through 2024. Falling equity market values are driven by declining price-to-earnings multiples as markets grapple with the likelihood of recession (technically, we're in one) and the impact higher yields have overall on economic growth..**

Source: Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Historical EPS levels are based on annual operating earnings per share. Earnings estimates are based on estimates from Standard & Poor's and FactSet Market Aggregates. *Earnings and multiple growth are both year-to-date percent changes of next twelve-month estimates. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of September 12, 2022..