THE CAPITAL MARKETS

Issue 12 | December 2022

NEW COVENANT TRUST

A Subsidiary of the Presbyterian Foundation

The Dow Jones Industrial Average (DJIA) finished November at 34,590 up +5.67% for the month, down -4.81% year-to-date. The S&P 500 closed November at 4,080, up +5.38% for the month, down -14.39% so far for the year. The NASDAQ Composite gained +4.37% in November, still down -26.70% for the year. Small-company stocks as measured by the Russell 2000, ended November up +2.15% for the month, down -15.98% year-to-date. Materials (+11.24%) was the best performing sector in November.

> ***"Stocks have been choppy in recent weeks. The Federal Reserve's message that it will keep raising interest rates to quell inflation and forecasts of a recession in 2023 have both weighed on the market."***
>
> **(The Wall Street Journal, "Stocks Tumble After Robust Economic Data," Joe Wallace, Dec. 22, 2022)**

AN END TO A MISERABLE 2022 BRINGS RISKS AND OPPORTUNITIES FOR INVESTORS

Markets continued their rally from recent lows through October and November but have struggled as we end the year so far through December. Many of the key drivers remain the same, with decades-high inflation forcing the Federal Reserve and central banks around the world to raise interest rates and tighten monetary conditions at a historic pace. A better-than-expected trajectory of inflation coming down in the United States has cheered markets in recent months, but the Federal Reserve's forecast of higher-for-longer interest rates and its stated resolve around ending high inflation as a top priority has increased the likelihood of an economic slowdown in 2023.

Russia's invasion of Ukraine has stressed global energy markets, especially for the natural gas used to heat homes throughout Europe, causing prices to rise dramatically. China's unpredictable response to the ongoing Covid-19 pandemic has lowered its GDP forecasts, put downward pressure on global GDP, and continues to add uncertainty to global supply chains. With a high level of uncertainty and rapidly changing dynamics, investors are facing an elevated risk of volatility heading into 2023, although some opportunities may exist in our view as well.

Below, we cover a few market themes that we are watching.

- <u>Diversification matters when market leaders rotate.</u> After leading the market for years to sky-high valuations, technology stocks and other growth-oriented stocks were among the worst performers in 2022 as monetary conditions changed, offering a helpful reminder to remain balanced and diversified across industries and sectors so as not to miss next year's winners, or be over concentrated in next year's losers. Although having recently outperformed, we often generally encourage investors not to focus only on U.S. stocks, but to also consider diversifying globally.
- <u>Income is back in bonds and cash.</u> One consequence of rising interest rates has been better yields for savers, with both the three-month and two-year treasury above 4% at the time of this writing. One near-term opportunity for investors may be to consider if any cash is sitting in very low-yielding accounts, and evaluate if short CDs or money markets are appropriate.
- <u>Volatility is often associated with investor mistakes.</u> A well-known finding in studying financial markets is that an investor's returns are often lower than their investments' returns. This is because ill-timed buying and selling

> ***"A spot of good news for today's retirees: Cash yields have hit their highest levels in at least a decade, cushioning the blow of soaring inflation and a slumping stock market ... Many savings accounts are yielding at least 3%. Or you can hold certificates of deposit, as long as you're mindful of how long they'll tie up your money."***
>
> **(Barron's, "Cash Yields Are a Bright Spot for Retirees. Here's How Much You Need," Elizabeth O'Brien, Dec. 9, 2022)**

activity results in sub-par returns vs. just holding their investment. We would encourage investors to be prepared for what may be in the near term a choppy 2023, and to keep daily, monthly and quarterly market returns in context relative to a multi-year or multi-decade plan. For example, in the three years preceding this difficult 2022, the U.S. stock market was up +30%, +21% and +25%, respectively.

As always, ensuring that your investment plan and risk exposure matches your time horizon and goals, remaining balanced in a well-diversified portfolio, and keeping an appropriate zoom or context in turbulent markets are all actions that support efficient long-term returns in our view. In markets like these, it's more important than ever to work closely with your financial professional. If we can help in any way, please don't hesitate to reach out.

From all of us at NCTC, we pray for a very Merry Christmas and a Happy New Year to you, your congregations, and your communities. Thank you for the opportunity to serve and for another year of readership.

Market Metrics

INDEX OR METRIC	CLOSE AS OF 10/31/2022	CLOSE AS OF 11/30/2022	CHANGE PREVIOUS MONTH END	2022 YTD % CHANGE
Dow Jones Industrial Average	32,732.95	34,589.77	+1,856.82	-4.81%
S&P 500	3,871.98	4,080.11	+208.13	-14.39%
NASDAQ Composite	10,988.15	11,467.99	+479.85	-26.70%
RUSSELL 2000	1,846.86	1,886.58	+39.72	-15.98%
Fed Funds Rate	3.75%-4.00%	4.25%-4.50%	+0.50%	
2-Year Treasury	4.51%	4.38%	-0.13%	
10-Year Treasury	4.10%	3.68%	-0.42%	
Crude Oil $ per Barrel	$86.53	$80.55	-$5.98	+7.10%
Gold $ per Troy oz.	$1,640.70	$1,759.90	+$119.20	-3.76%
UK Point in U.S. $	$1.1514US=1£	$1.1909US=1£	$ WEAKER	-12.08%
Euro in U.S. $	$0.9884US=1€	$1.0297US=1€	$ WEAKER	-9.46%
Canada $ per U.S. $	$1.36405C=$1.00US	$1.3557C=$1.00US	$ WEAKER	+7.33%
Japan Yen per U.S. $	148.635¥=$1.00US	139.54¥=$1.00US	$ WEAKER	+21.18%