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Q3

Global Market Review

Third Quarter 2022

Global Market Review

Third Quarter 2022

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

Overview:

Commentary: *What Drives Investment Returns? Start with Ingenuity.*

Market Summary: Quarterly & Long-Term

World Stock Market Performance:
Quarterly & Annual/Long Term

US Stocks

International Developed Stocks

Emerging Markets Stocks

Real Estate Investment Trusts (REITs)

Fixed Income

Global Fixed Income

Impact of Diversification

Wealth Planning Stress Testing Offer

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What Drives Investment Returns? Start with Ingenuity.

Third quarter 2022

A recent news item reported that Frederick Smith intended to step down as Chairman and Chief Executive Officer of FedEx Corp., the largest air freight firm in the world.

As a Yale undergraduate in 1965, Smith wrote a term paper for his economics course outlining an overnight air delivery service for urgently needed items such as medicines or computer parts. His professor was not much impressed with the paper, but after a stint in the Air Force, Smith sought to put his classroom idea into practice. He founded Federal Express (now FedEx) in 1971, and one evening in April 1973, 14 Dassault Falcon jets took off from Memphis airport with 186 packages destined for 25 cities.

In retrospect, it was not an auspicious time to launch a new venture requiring expensive aircraft consuming large quantities of jet fuel. Oil prices rose sharply later that year following the Arab states' oil embargo, and the US economy fell into a deep recession. Most airlines struggled during the 1970s, and Federal Express was no exception.

But Smith's idea found favor with customers, and 49 years after its initial deliveries, the firm is a global colossus with over 650 aircraft, including 42 Boeing 777s—each of which can fly more cargo than 100 Falcons. Although it took over two years to turn its first profit, FedEx became the first start-up in American history to generate over \$1 billion in revenue in

less than 10 years without relying on mergers or acquisitions. The journey has proved rewarding for investors as well—100 shares purchased at the initial offering price of \$24 in 1978 has mushroomed to 3,200 shares worth over \$718,000 as of May 31, 2022.¹

Fred Smith's idea is just one example of ingenuity that humans have exhibited for centuries. Sticks and stones led to hammers and spears, the wheel and axle, the steam engine, and eventually semiconductors and jet aircraft. The invention of writing made it possible to store and hand down information from one generation to the next, enabling ingenuity to compound into an ever-increasing body of knowledge. Although we often associate innovation with clever new technology, some remarkable developments have required little more than astute powers of observation. The curse of smallpox, for example, has afflicted humans with death or disfigurement for thousands of years. English doctor Edward Jenner noticed that milkmaids who had previously experienced cowpox did not catch smallpox, and in 1796, he took material from a milkmaid's cowpox sore and inoculated James Phipps, the nine-year-old son of his gardener. Later exposed to the virus, Phipps never developed smallpox, and Jenner published a treatise on vaccination in 1801. Smallpox vaccines gradually eliminated the disease in countries around the world, and the last known case was reported in Somalia in 1977.

1. Stock split information sourced from FedEx investor relations website. Stock price information provided by Bloomberg. This is not taking into account cash dividends or any reinvestment.

What Drives Investment Returns? Start with Ingenuity.

(continued from page 3)

One innovation often paves the way for others:

- Charles Lindbergh took off from Long Island for his historic transatlantic flight to Paris on May 20, 1927. That same day, J. Willard Marriott opened a nine-stool lunch counter serving cold A&W root beer in Washington, D.C. Ten years later he began to supply box lunches to airlines flying from nearby Hoover airport and 20 years later opened the world's first motor hotel in Arlington, Virginia. Today, Marriott is the world's leading travel firm, with over 8,000 hotel properties in 139 countries.
- The now-ubiquitous microwave oven can trace its roots to a happy accident. While working on radar equipment in 1945 for Massachusetts-based Raytheon, electronics engineer Percy Spencer noticed that the chocolate bar in his pocket had suddenly melted. His curiosity led to the introduction of commercial-grade water-cooled microwave ovens in 1947 costing thousands and ultimately to countertop units available today for \$99.
- Frustrated by lengthy delays associated with loading and unloading cargo ships, trucking firm owner Malcolm McLean launched a shipping service in 1956 using standardized steel containers of his own design. Met with great skepticism when first introduced, his idea for theftproof stackable cargo boxes eventually transformed the global shipping industry—and world trade—by slashing dockside loading costs over 90%.
- On June 26, 1974, cashier Sharon Buchanan inaugurated the era of barcode inventory tracking when she scanned a pack of Juicy Fruit gum bearing a Universal Product Code at Marsh Supermarket in Troy, Ohio. Barcode scanners eliminated the drudgery and inevitable mistakes associated with manual entry by checkout clerks and provided store managers with powerful tools to track sales trends. As retailers such as Home Depot, Ross Stores, and Walmart expanded throughout the country in recent decades, barcode technology played a key role in matching inventory with local preferences at each location.
- In March 2022, a 20-year-old woman born with a small and misshapen right ear received a 3D-printed ear implant made from her own cells and shaped to precisely match her other ear. Although experimental, the procedure represented a significant advance in tissue engineering and could eventually lead to artificial organs such as lungs or kidneys.

The benefits of innovation are widely dispersed throughout the economy, often in unpredictable ways. Apple Inc. became one of the world's most valuable companies based on its clever marriage of the computer and the telephone; both iPhone users and Apple shareholders reaped substantial rewards.

On the other hand, suppose your fairy godmother had told you in 1935, at the dawn of commercial air travel, that this tiny sector of the

What Drives Investment Returns? Start with Ingenuity.

(continued from page 4)

economy would eventually become a gigantic industry with millions of passengers flying every year—including some flying from breakfast in New York to Los Angeles for dinner. What would your prediction be for industry pioneers such as TWA or Pan American? Most likely, bountiful prosperity and rewarding stock market performance. The millions of passengers materialized. The profits did not. Both firms went bankrupt. So innovation itself does not ensure prosperity in every case.

That's why it makes sense to diversify. Investors are often tempted to focus their attention on firms that appear poised to benefit from innovation. But it's difficult to predict which ideas will prove successful, and even if we could, it's unclear which firms will benefit and to what extent. Software giant Microsoft has been a big winner for investors, with the share value soaring more than 100-fold over the 30-year period

ending May 31, 2022. Discount retailer Ross Stores proved even more rewarding, as the stock price multiplied over 189 times during the same period. One firm developed powerful computer technology and the other applied it.







Civilization is a history of innovation—curious minds seeking to improve upon existing ways of meeting mankind's wants and needs. Public securities markets are just one example of such creativity, and they have a history of rewarding investors for the capital they supply to fund such innovation. But a significant fraction of the wealth created in public equity markets typically comes from only a small number of firms; therefore, we believe owning a broad universe of stocks is the most effective way to participate in the rewards of ingenuity and innovation, wherever and whenever it takes place.

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Global Market Summary



















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

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Long-Term Market Summary

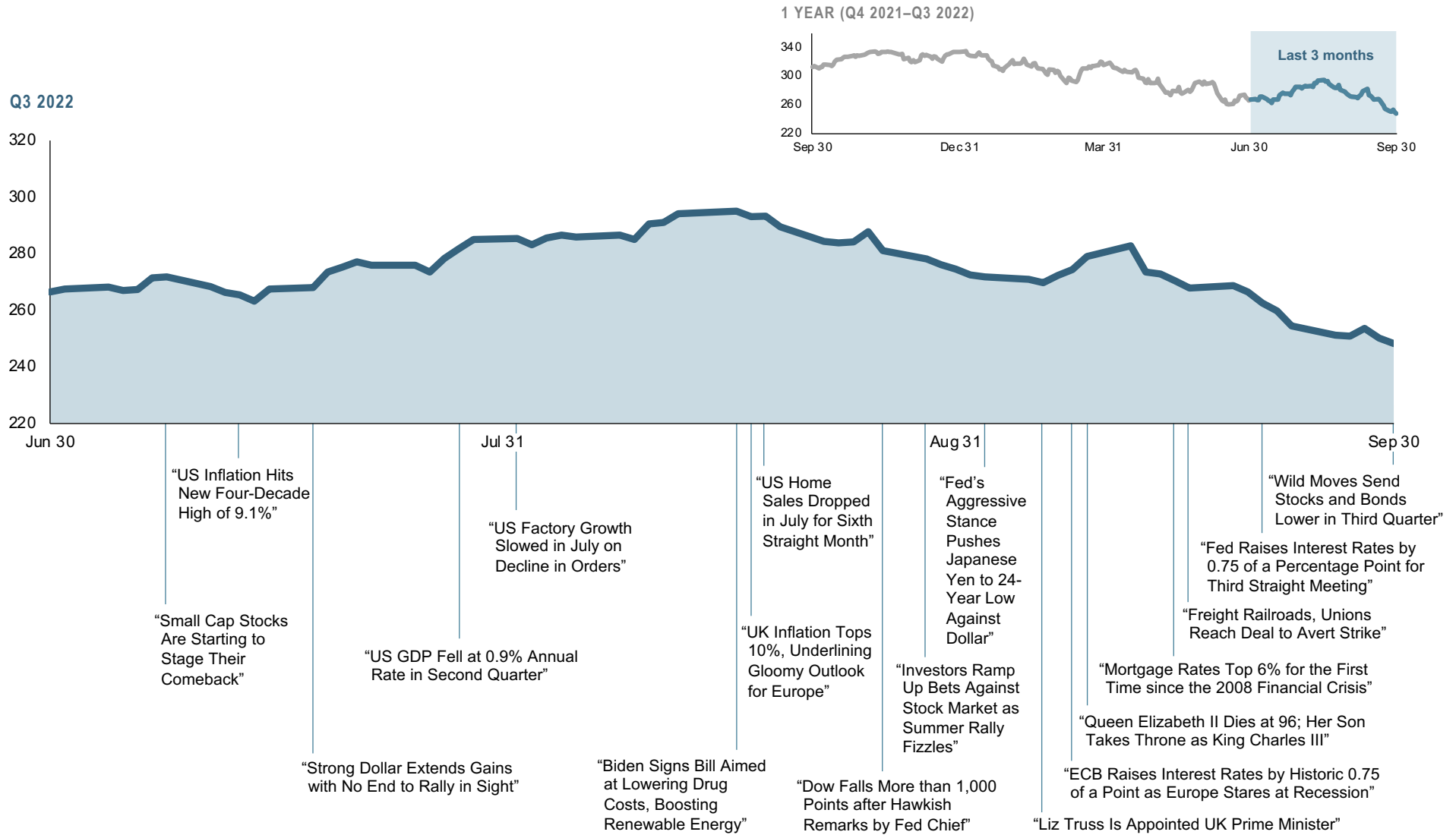
Index returns as of September 30, 2022

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

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2022



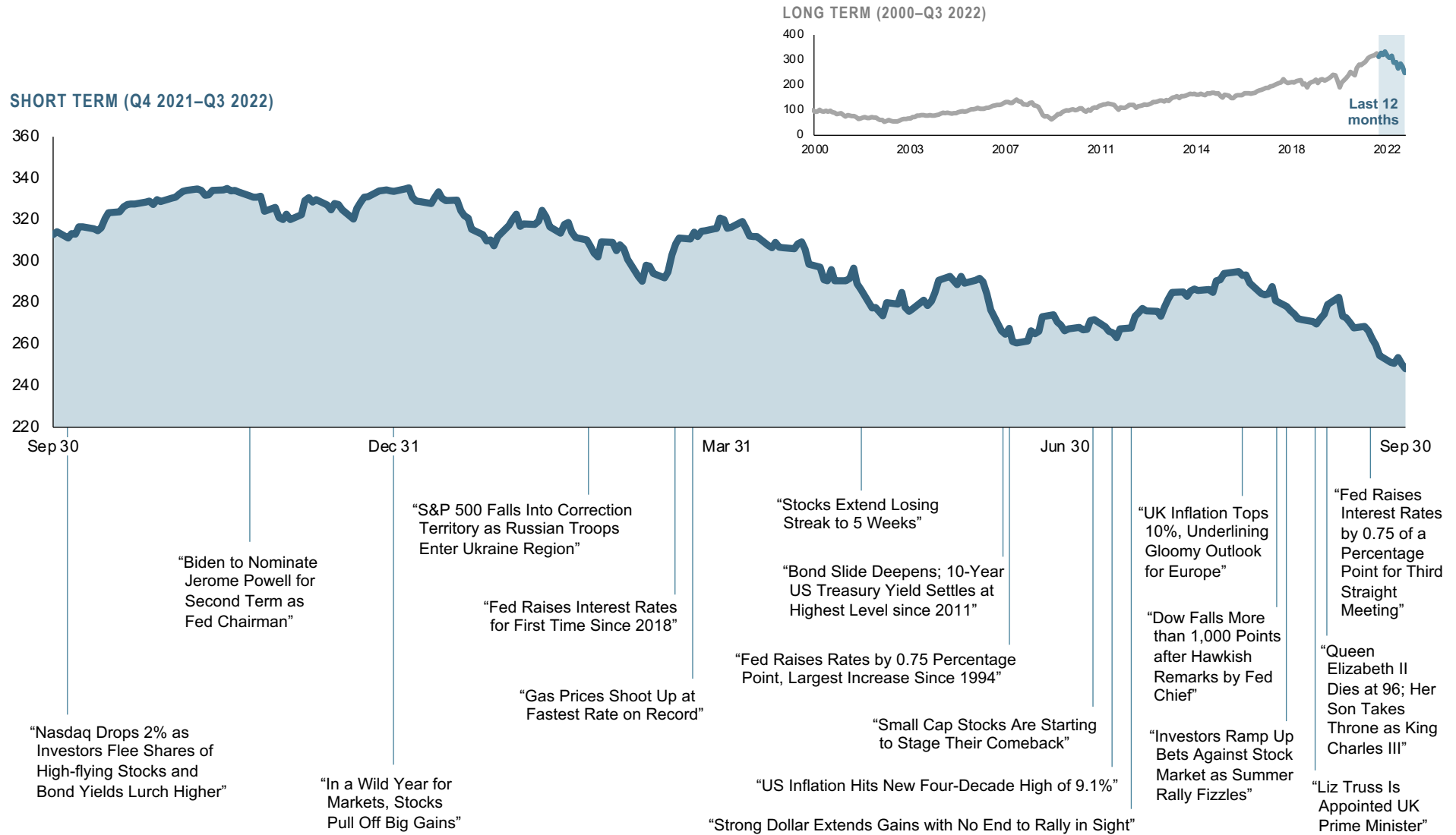
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

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.

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.

US Stocks

Third quarter 2022 index returns

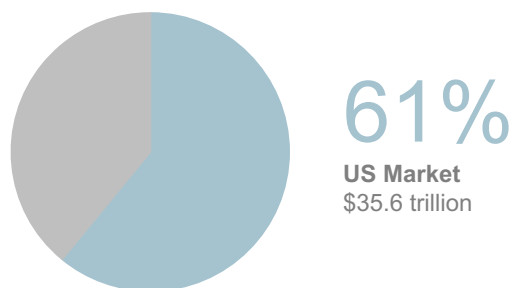
The US equity market posted negative returns for the quarter and outperformed both non-US developed and emerging markets.

Value underperformed growth.

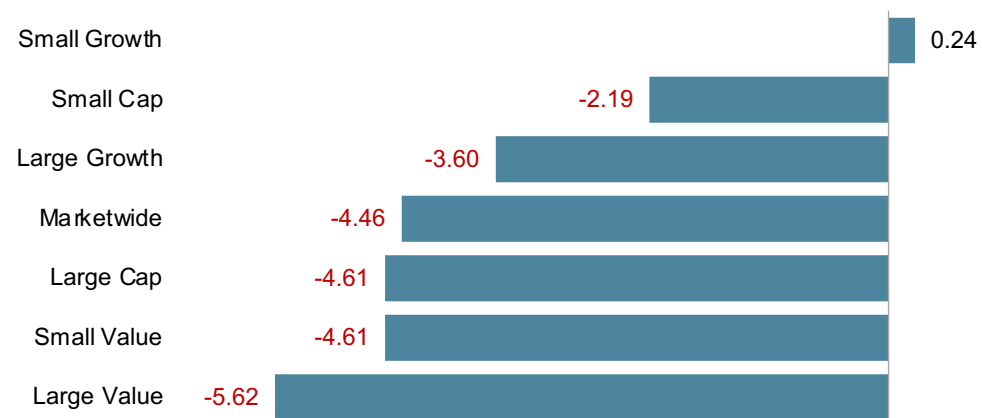
Small caps outperformed large caps.

REIT indices underperformed equity market indices.

World Market Capitalization—US



Ranked Returns (%)



Period Returns (%)

Asset Class	* Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Growth	0.2	-29.3	-29.3	2.9	3.6	8.8
Small Cap	-2.2	-25.1	-23.5	4.3	3.6	8.6
Large Growth	-3.6	-30.7	-22.6	10.7	12.2	13.7
Marketwide	-4.5	-24.6	-17.6	7.7	8.6	11.4
Large Cap	-4.6	-24.6	-17.2	8.0	9.0	11.6
Small Value	-4.6	-21.1	-17.7	4.7	2.9	7.9
Large Value	-5.6	-17.8	-11.4	4.4	5.3	9.2

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International Developed Stocks

Third quarter 2022 index returns

Developed markets outside of the US posted negative returns for the quarter and underperformed the US market, but outperformed emerging markets.

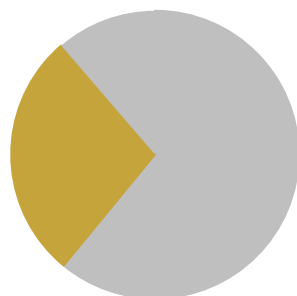
Value underperformed growth.

Small caps underperformed large caps.

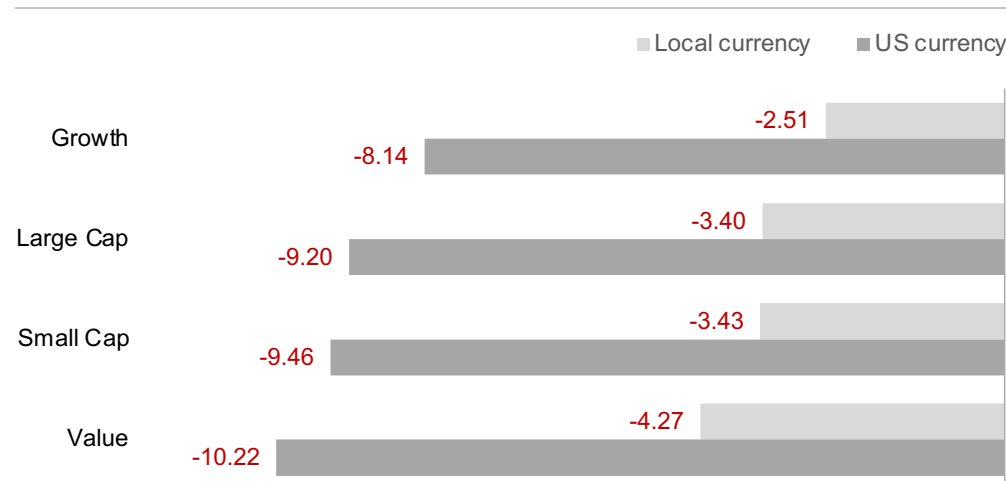
World Market Capitalization—International Developed

28%

International
Developed Market
\$16.2 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	* Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-8.1	-32.3	-29.4	-1.1	0.9	4.5
Large Cap	-9.2	-26.2	-23.9	-1.2	-0.4	3.6
Small Cap	-9.5	-31.1	-30.8	-1.3	-1.2	4.8
Value	-10.2	-20.1	-18.6	-2.0	-2.1	2.5

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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.

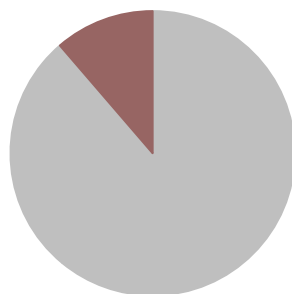
Value outperformed growth.

Small caps outperformed large caps.

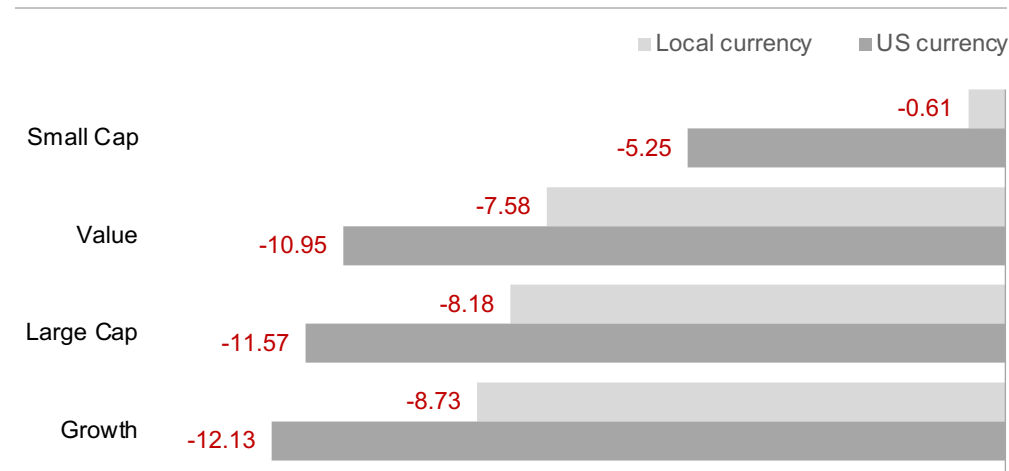
World Market Capitalization—Emerging Markets

11%

Emerging
Markets
\$6.6 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	* Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	-5.3	-24.2	-23.2	5.5	1.3	2.9
Value	-11.0	-23.3	-23.6	-2.6	-2.1	-0.4
Large Cap	-11.6	-27.2	-28.1	-2.1	-1.8	1.1
Growth	-12.1	-30.7	-32.1	-1.8	-1.6	2.4

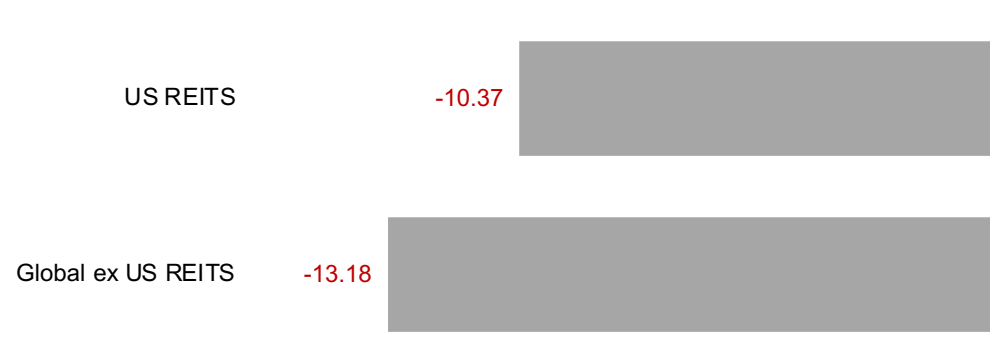
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Real Estate Investment Trusts (REITs)

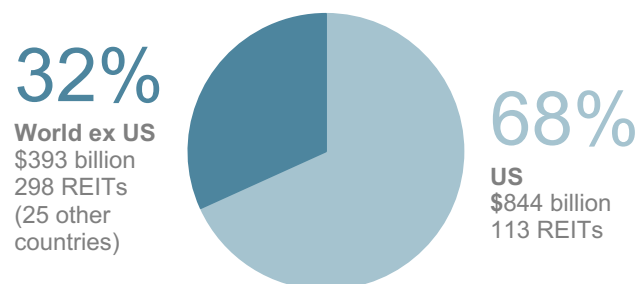
Third quarter 2022 index returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	* Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	-10.4	-29.3	-17.2	-3.3	2.0	5.5
Global ex US REITS	-13.2	-30.5	-27.3	-9.7	-3.0	1.1

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.

Fixed Income

Third quarter 2022 index returns

Interest rates increased across all bond maturities in the US Treasury market for the quarter.

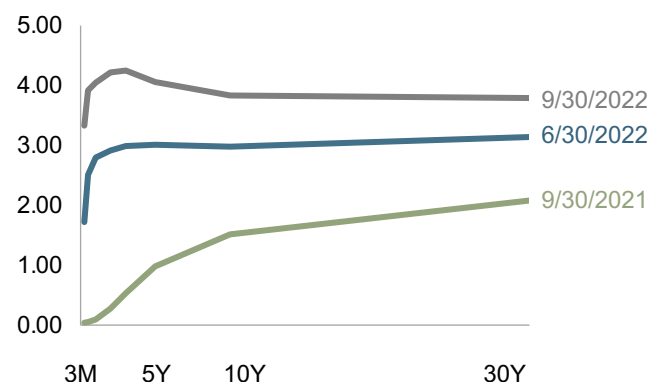
The yield on the 5-Year US Treasury Note increased 105 basis points (bps) to 4.06%. The yield on the 10-Year US Treasury Note increased 85 bps to 3.83%. The yield on the 30-Year US Treasury Bond increased 65 bps to 3.79%.

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%.

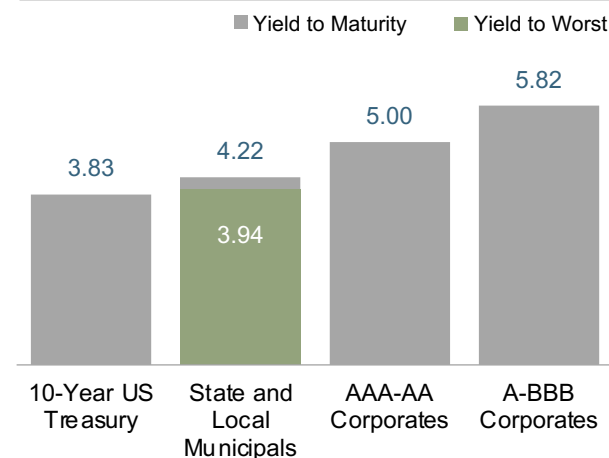
In terms of total returns, short-term corporate bonds returned -1.94% and intermediate-term corporate bonds returned -3.11%.¹

The total return for short-term municipal bonds was -1.88% and -2.65% for intermediate-term municipal bonds. Within the municipal fixed income market, general obligation bonds outperformed revenue bonds, returning -3.30% vs. -3.62%, respectively.²

US Treasury Yield Curve (%)



Bond Yield Across Issuers (%)



Period Returns (%)

Asset Class	*Annualized					
	QTR	YTD	1 Yr	3 Yrs*	5 Yrs*	10 Yrs*
ICE BofA US 3-Month Treasury Bill Index	0.5	0.6	0.6	0.6	1.2	0.7
ICE BofA 1-Year US Treasury Note Index	-0.5	-1.8	-2.0	0.2	0.9	0.7
Bloomberg U.S. High Yield Corporate Bond Index	-0.7	-14.7	-14.1	-0.5	1.6	3.9
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-1.8	-5.0	-5.5	-0.9	0.6	1.0
Bloomberg Municipal Bond Index	-3.5	-12.1	-11.5	-1.9	0.6	1.8
Bloomberg U.S. Aggregate Bond Index	-4.8	-14.6	-14.6	-3.3	-0.3	0.9
FTSE World Government Bond Index 1-5 Years	-4.8	-12.1	-13.3	-3.3	-1.8	-1.7
Bloomberg U.S. TIPS Index	-5.1	-13.6	-11.6	0.8	2.0	1.0
Bloomberg U.S. Government Bond Index Long	-9.6	-28.8	-26.6	-8.5	-1.6	0.6

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 (SBBI) 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

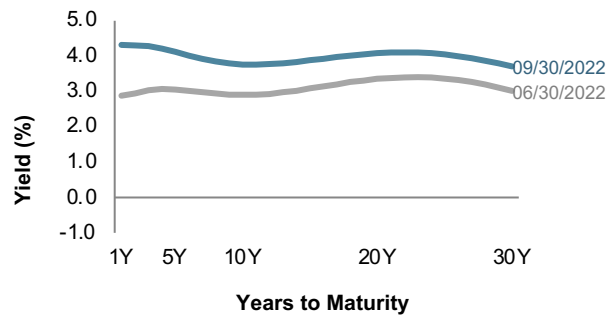
Third quarter 2022 yield curves

Interest rates generally increased within global developed markets for the quarter.

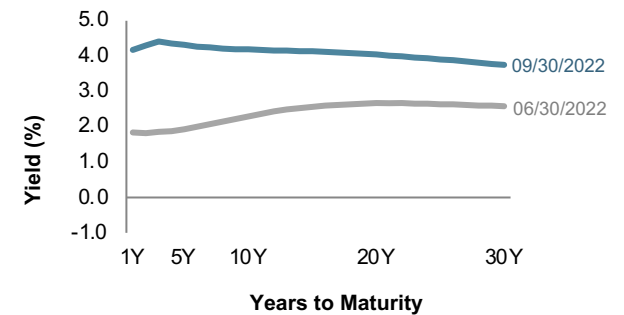
Realized term premiums were negative in global developed markets.

In Japan, short-term nominal interest rates remained negative. In Canada, the short-term segment of the yield curve inverted.

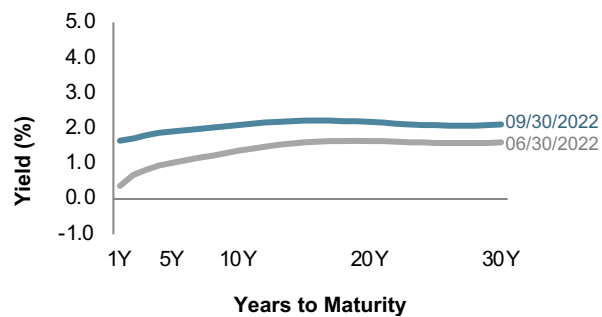
US



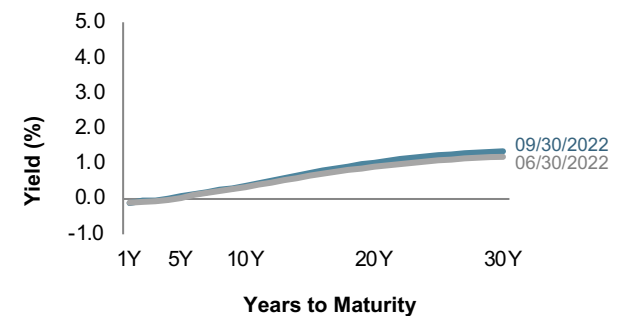
UK



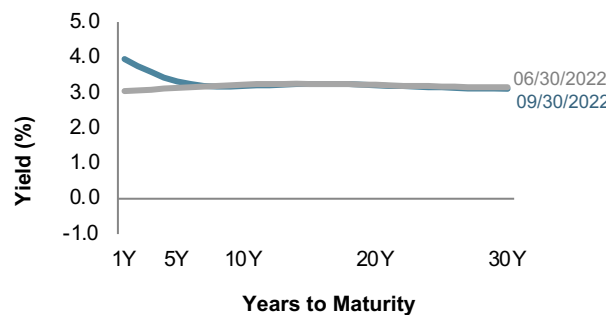
Germany



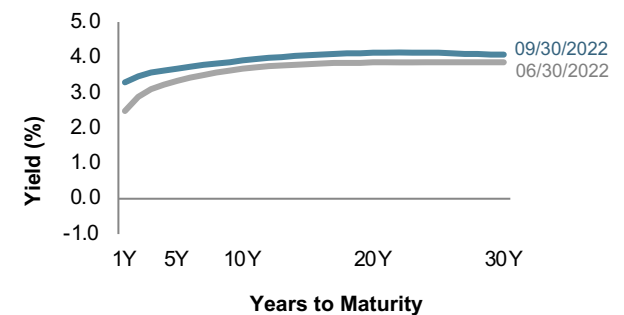
Japan



Canada



Australia



Changes in Yields (bps) since 6/30/2022

	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

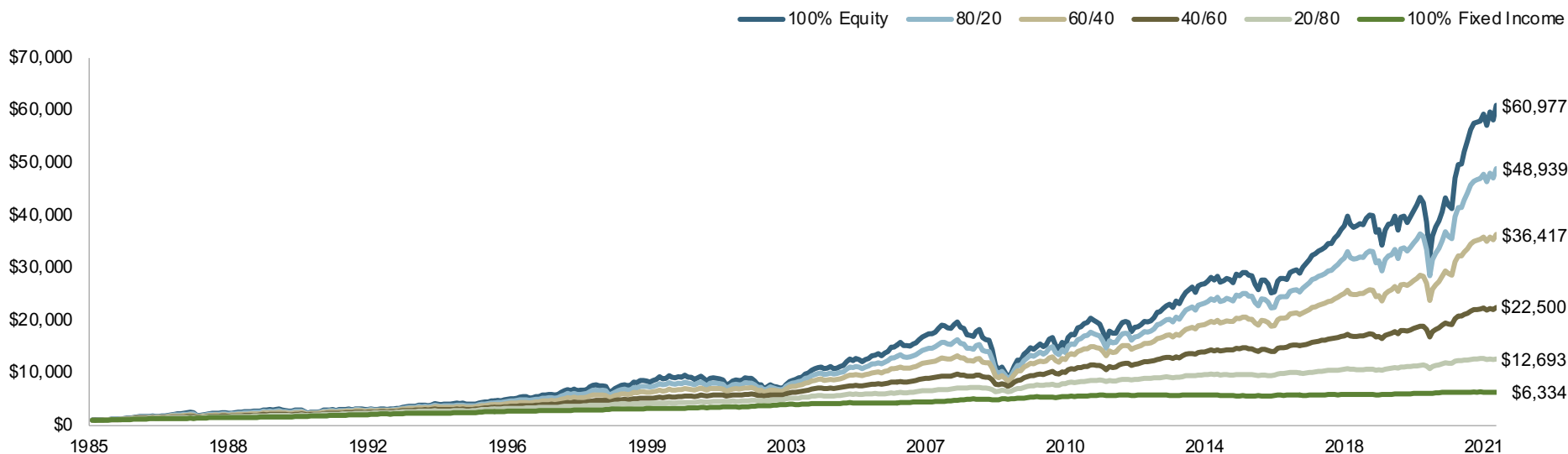
Impact of Diversification

As of December 31, 2021

These indices illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)					* Annualized
Dimensional Core Plus Wealth Index Model	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Equity	22.6	21.1	14.6	13.2	14.1
80/20	17.7	18.5	12.9	11.9	11.8
60/40	12.6	15.4	10.8	10.0	9.1
40/60	7.8	10.8	7.8	7.3	6.1
20/80	2.1	6.4	4.9	4.1	3.7
100% Fixed Income	(0.9)	2.2	2.0	1.0	1.7

Growth of Wealth: The Relationship Between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. For illustrative purposes only. Past performance is no guarantee of future results. The performance reflects the growth of a hypothetical \$1,000. Assumes all models have been rebalanced monthly. See appendix for allocation information. All performance results are based on performance of indexes with model/back-tested asset allocations; the performance was achieved with the benefit of hindsight; it does not represent actual investment strategies. The index models are unmanaged and the model's performance does not reflect advisory fees or other expenses associated with the management of an actual portfolio. In particular, Model performance may not reflect the impact that economic and market factors may have had on the advisor's decision making if the advisor were actually managing client money. The models are not recommendations for an actual allocation. Indices are not available for direct investment. Backtested performance results assume the reinvestment of dividends and capital gains. Sources: Dimensional Fund Advisors LP for Dimensional Indices. Copyright 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Wealth Planning Stress Test

In these uncertain times, you may know a friend, family member or colleague who may have a difficult situation, or who wonders whether they are getting the right advice, or simply needs sound professional advice but doesn't get it. That's not uncommon. Studies suggest that over 80 percent of "middle-class millionaires" would value a second opinion for planning.*

In order to help those you care about achieve their goals and dreams, we provide a complimentary **Wealth Planning Stress Test** for those people. We're pleased to offer your friends, family and colleagues the same guidance and expertise that you've experienced as a valued client of Professional Financial.

Paul Byron Hill, MBA, MFP, MSFS, ChFC®, RICP®, CFP® is a nationally recognized Wealth Management Certified Professional™ and Certified Financial Planner™ professional, written about in *Fortune*, *Forbes*, *Bloomberg Businessweek*, and *Money*. Paul is the co-author of *Retire Abundantly*. Reuters AdvisePoint recognized Mr. Hill as one of 500 "Top Advisers" in the U.S. and featured him in an interview on their website.

Paul founded Professional Financial Strategies, Inc. in 1993 as one of the first fiduciary planning firms that specializes in retirement and wealth management for affluent and aspiring families. Paul is a personal chief financial officer acting in best interest of clients. He brings together a proven process and a network of specialists for making informed decisions for systematic strategies, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award, and featured him with others in *The Wall Street Journal* and other publications.

INTRODUCTORY WEALTH PLANNING PROCESS



*Source: Russ Alan Prince and David A. Geraciotti, *Cultivating the Middle-Class Millionaire*, 2005.

Wealth Planning Stress Test

Working with experts who defined the professional wealth management process

Ask ten investors to define wealth management. Rather, ask ten financial advisors you meet to do so. You'll probably get ten different answers, and most replies will focus on investing or only products. As a client of Professional Financial, however, you benefit from a team of CFPs® with a network of experts sharing a distinctive vision of integrative wealth management.

Our professional planning process

At Professional Financial we approach each engagement with a time-tested, collaborative process. We'll have an open conversation so we can learn about your values, goals and dreams. This proven process enables us to expertly tailor an individual plan that works toward your wealth and legacy goals. As a valued client, you'll recognize each of the six steps above. In our **Wealth Planning Second Opinion**, we offer a portion of our consultative service, complimentary, to your friends, family and colleagues.

What to expect from wealth planning second opinion

We will meet with your friends and family in a conversation to explore their concerns and opportunities to see if we can help. If there is a fit and a benefit, we will invite them back for a follow up conversation. We may confirm whether they are on the right track with their existing financial advisors. Or if we are not the right fit, we will suggest another qualified professional firm that may be more appropriate. Either way, they will receive constructive advice and recommendations regarding their planning situation—easily a value of \$5,000 or more.

STRESS TESTING CONVERSATION

Phase 1

Phase 2

Financial
Envisionment
Conversation

Retirement
Stress Testing
Conversation

PURPOSEFUL WEALTH MANAGEMENT

INVESTMENT MANAGEMENT

- Strategic planning
- Goal monitoring
- Performance evaluation
- Risk evaluation
- Portfolio structuring
- Manager due diligence

WEALTH PLANNING

- Wealth enhancement, including tax minimization and liability restructuring

- Asset Protection
- Securitizing Heirs' Lifestyle
- Legacy Planning
- Charitable Impact

RELATIONSHIP CONSULTATIONS

- Regularly scheduled calls, emails, reviews and in-person meetings
- Professional network, including accounting, tax, legal, insurance, actuarial and benefits experts

Let us help those you care about. Contact us today.

Paul Byron Hill, MBA, MFP, MSFS, ChFC®, RICP®
CEO | Certified Financial Planner™
Wealth Management Certified Professional™

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