WEEKLY MARKET INSIGHTS

September 12, 2022

INVESTMENT MANAGEMENT GROUP | ARVEST

"When peace comes, remember it will be for us, the children of today, to make the world a better & happier place." – Queen Elizabeth II

Eight times a year the U.S. Federal Reserve (FED) releases their "Beige Book," the latest of which was released last week. The report compiles data and opinions from businesses/economists across each of the twelve U.S. Federal Reserve districts. The national summary was that economic activity has been largely unchanged since July with inflation beginning to moderate, a statement that is bound to invite some ire. The district-by-district data showed an even dispersion of results. Five districts reported "slight to modest growth" and five others reported "slight to modest softening," leaving two districts largely unchanged. Outside of supply chain issues, the biggest feedback that businesses gave the FED is that they would still like to hire more people but can't find enough workers. The U.S. economy ***is*** slowing. That said, "I want to hire more people but can't" is not exactly a dire growth sentiment. Believe it or not, the FED still has a chance to achieve their coveted "soft landing" (i.e. taming inflation by raising interest rate while avoiding an economic recession). The reality is that a mild economic recession seems more likely, with a smaller chance of a moderate recession if the FED truly intends on arresting inflation all the way back to the 2% target. Globally, economists have continued to adjust growth forecasts lower this year for almost all countries (see table, top right). The consensus is that investors should expect lower investment returns for the next decade compared to the prior decade. Another reality is that economic data is going to get more confusing for the next 6-12 months. Investors will need to control their emotions as data and opinions begin to diverge.

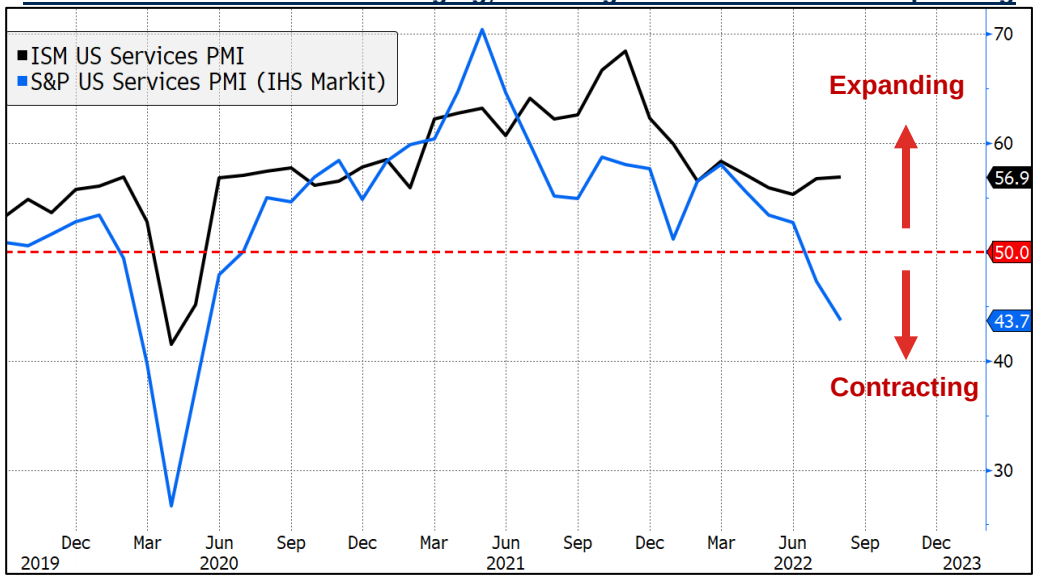
A Purchasing Managers' Index (PMI) reflects the prevailing direction, expanding or contracting, of broad economic trends as told by decision makers within corporate supply chains. The metric is helpful in assessing the health of consumer demand because these purchasing managers are incentivized to only purchase inventory if it satisfies a real consumer demand. Economists can afford to be wrong with few real consequences beyond reputational. Purchasing managers cannot, without hurting business profitability. Last week, the two main providers of PMI data released reports that seemed to paint different pictures (see chart, bottom right). The ISM report showed services activity expanding, while the S&P report showed services contracting. The differences lie in methodology. The ISM report includes a broader range of industries and skews towards larger, established companies. The S&P report tends to reflect small and medium size companies better. The diverging data, while ***(cont.)***

Global Economic Growth Projections for Next Decade Continue to Moderate

Real GDP Growth Rates (Average Annual Percent Change)

	2011-2019	2020	2021	2022	2023	2022-2026	2027-2031
United States	2.2	-3.4	5.7	1.3	0.2	2.1	1.8
Europe	1.6	-6.4	5.4	3.3	0.3	1.2	1.1
Euro Area	1.2	-6.9	5.1	3.0	0.4	1.0	0.9
Germany	1.7	-4.6	2.6	1.6	-0.2	0.8	0.7
Italy	0.1	-9.1	6.6	3.5	0.6	0.5	0.2
France	1.4	-7.8	6.8	2.6	0.6	1.2	1.2
United Kingdom	2.0	-9.3	7.4	3.6	-0.6	1.1	0.9
Japan	0.9	-4.6	1.7	1.6	1.3	0.8	0.8
Other Mature Economies	2.8	-2.0	5.3	3.0	2.3	2.5	2.4
All Mature Economies	**1.9**	**-4.6**	**5.1**	**2.4**	**0.6**	**1.7**	**1.5**

Economic Demand Data Is Diverging, Clouding Outlook for Services Spending



Sources: Top – The Conference Board; Bottom – Bloomberg LP

ABOUT INVESTMENT MANAGEMENT GROUP

Arvest Wealth Management currently manages over $14 billion in client assets by providing a diverse mix of services including brokerage, trust, investment management, retirement plans, IRAs, custodial accounts, estate settlement and insurance. We are people helping people find financial solutions for life. The Investment Management Group is a registered investment advisory within Arvest Wealth Management, founded in 2011, and responsible for managing approximately $750 million in assets.

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still confusing, makes a little more sense in that context. Additionally, about two-thirds of manufacturing contacts from the Beige Book noted concerns about the possibility of a recession, but most also were expecting sales over the next year to be similar or slightly higher than pre-pandemic levels. Growth, however small, is still there but risks loom. Clear as mud! We will dig deeper into the nuances of economic growth and these PMI reports in the upcoming IMG Monthly Viewpoint which will be released on Thursday.

Confusing economic data should be expected as global economies try to find an equilibrium. A necessary evil for an economy to reset. But the potential for a messy recovery often baits investors into emotional decisions, convinced by whatever data confirms their fears (or optimism). Selling investments and hiding out in cash, waiting until firmer ground appears, is the most common emotional reaction. Yet, investors who try to time the market by hiding in cash are often worse off than doing nothing because they do not re-enter the market quick enough (see chart, top right). Clouds can persist well into any economic recovery. Volatility begets volatility, both negative ***and*** positive.

A good argument can be made that we are beginning a new regime of global economic growth, lower and more volatile. With the context of the relatively peaceful geopolitical backdrop of the last few decades, this seems like a rare environment. But economic/geopolitical disfunction is not rare in the context of history, as the late Queen Elizabeth II often opined. It is imperative for investors to understand their investment time horizon and risk tolerance. The longer the time horizon, the less current economic uncertainties should keep you awake. If you have a shorter time horizon, and these uncertainties are giving you headaches, it might be a good time to talk to a financial advisor to understand what options might provide a greater sense of financial peace. Sound peace of mind is the best defense against emotionally driven investment decisions.

JOIN OUR MONTHLY MARKET CALL

The Arvest Investment Management Group hosts a monthly Market Viewpoint webinar. To join us for our next meeting, please contact Charles Kurtz at ckurtz@arvest.com.

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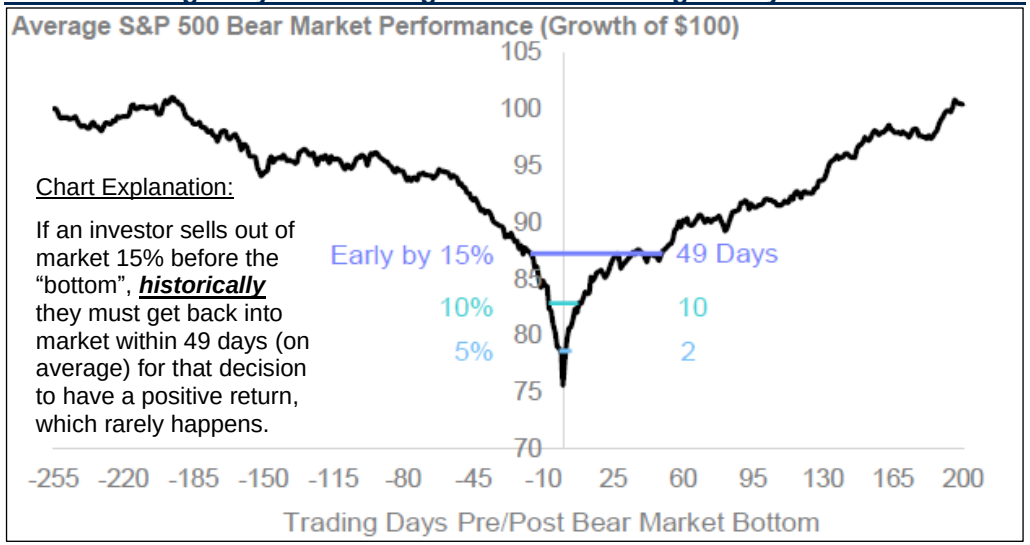
"Cost of Being Early" In Avoiding Declines Often Negated by Timid Re-Entrance



Source: Goldman Sachs Global Investment Research, Bloomberg LP, FRED, NBER

CURRENT ASSET CLASS OUTLOOK

Equities	Current
U.S. Equity	Neutral
Int'l Equity	Slightly Favorable
Emer. Mkts	Slightly Favorable

Real Assets	Current
Real Estate	Slightly Unfavorable
Infrastructure	Neutral
Commodities	Neutral

Fixed Income	Current
Invest. Grade Credit	Neutral
Treasury/Agency	Neutral
Mortgage (MBS)	Neutral
Commercial MBS	Slightly Favorable
Asset Backed (ABS)	Slightly Favorable
High Yield	Neutral
Emer. Mkts Debt	Slightly Unfavorable
Taxable Muni	Favorable
Tax-Exempt	Neutral
Tips	Neutral

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Market Returns & Rates (as of 9/9/2022)

Asset Class	Sub-Asset Class	Index	YTD	1-Year	3-Year	5-Year	10-Year	2021
Equity	U.S. Large Cap Equities	S&P 500	-13.72%	-8.11%	12.76%	12.30%	13.19%	28.68%
Equity	U.S. Mid Cap Equities	S&P 400	-11.18%	-6.53%	10.68%	9.19%	11.27%	24.73%
Equity	U.S. Small Cap Equities	Russell 2000	-15.41%	-15.27%	8.60%	7.23%	9.86%	14.78%
Equity	Developed ex. U.S. Equities	MSCI ACWI ex U.S.	-18.34%	-19.73%	2.45%	1.77%	4.70%	8.32%
Equity	Emerging Markets Equities	MSCI Emerging Mkts	-19.24%	-22.89%	1.35%	0.23%	2.78%	-2.32%
Fixed Income	Broad Aggregate	BB Aggregate	-11.56%	-12.44%	-2.13%	0.34%	1.29%	-1.54%
Fixed Income	U.S. Treasury	BB U.S. Treasury	-10.74%	-11.66%	-2.31%	0.13%	0.79%	-2.32%
Fixed Income	U.S. Treasury Inflation Prot.	BB U.S. Inflation Linked	-9.35%	-8.43%	2.35%	2.86%	1.61%	6.00%
Fixed Income	U.S. Investment Grade	BB U.S. Invest. Grade	-12.73%	-13.68%	-1.33%	1.32%	2.53%	-1.04%
Fixed Income	U.S. High Yield	BB U.S. High Yield	-10.21%	-9.81%	1.27%	2.77%	4.53%	5.28%
Fixed Income	U.S. Leveraged Loans	CS Leveraged Loan	-1.24%	-0.12%	2.94%	3.50%	3.99%	5.40%
Fixed Income	U.S. Municipals	BB Municipal Bond	-9.45%	-9.42%	-1.04%	1.04%	2.16%	1.52%
Fixed Income	Non-U.S. Gov't Bond	FTSE Non-U.S. WGBI	-23.28%	-27.11%	-8.74%	-4.72%	-2.57%	-9.68%
Fixed Income	Emerging Markets Debt	JPMorgan EMBI	-17.24%	-18.96%	-4.39%	-1.22%	1.63%	-1.51%
Real Assets	Real Estate	FTSE NAREIT	-15.64%	-6.37%	3.89%	5.87%	7.71%	43.24%
Real Assets	Energy Infrastructure	Alerian MLP	30.49%	33.27%	7.55%	3.87%	1.78%	39.85%
Real Assets	Broad Commodities	Bloomberg Commodity	19.51%	22.73%	14.73%	6.91%	-2.19%	27.05%
Real Assets	Oil	WTI Crude	15.40%	27.37%	14.48%	12.82%	-1.05%	55.01%
Real Assets	Gold	Gold COMEX	-6.00%	-4.39%	4.54%	4.99%	-0.11%	-3.51%

Key Market Interest Rates	Current Rate	1 Month Ago	2 Months Ago	3 Months Ago	4 Months Ago	6 Months Ago	1 Year Ago
Federal Funds Rate	2.33%	2.33%	1.58%	0.83%	0.83%	0.08%	0.08%
Secured Overnight Fin. Rate (SOFR)	2.28%	2.28%	1.53%	0.75%	0.79%	0.05%	0.05%
90-Day Treasury Rate	2.91%	2.48%	1.95%	1.29%	0.89%	0.36%	0.04%
2-Year Treasury Rate	3.56%	3.21%	3.07%	3.06%	2.56%	1.70%	0.21%
5-Year Treasury Rate	3.44%	2.92%	3.06%	3.26%	2.82%	1.92%	0.79%
10-Year Treasury Rate	3.31%	2.78%	2.99%	3.16%	2.85%	1.99%	1.30%
30-Year Treasury Rate	3.45%	3.03%	3.17%	3.19%	3.02%	2.37%	1.90%
3-Mon/10-Yr Treasury Spread	0.40%	0.30%	1.04%	1.87%	1.96%	1.62%	1.26%
2-Yr /10-Yr Treasury Spread	-0.25%	-0.43%	-0.08%	0.09%	0.29%	0.29%	1.08%
6-Month CD Rate	0.93%	0.84%	0.50%	0.35%	0.34%	0.16%	0.15%
1-Year CD Rate	1.41%	1.30%	0.94%	0.64%	0.70%	0.32%	0.29%
2-Year CD Rate	1.63%	1.52%	1.13%	0.80%	0.80%	0.37%	0.33%