# WEEKLY MARKET INSIGHTS

*September 19, 2022*

INVESTMENT MANAGEMENT GROUP | ARVEST

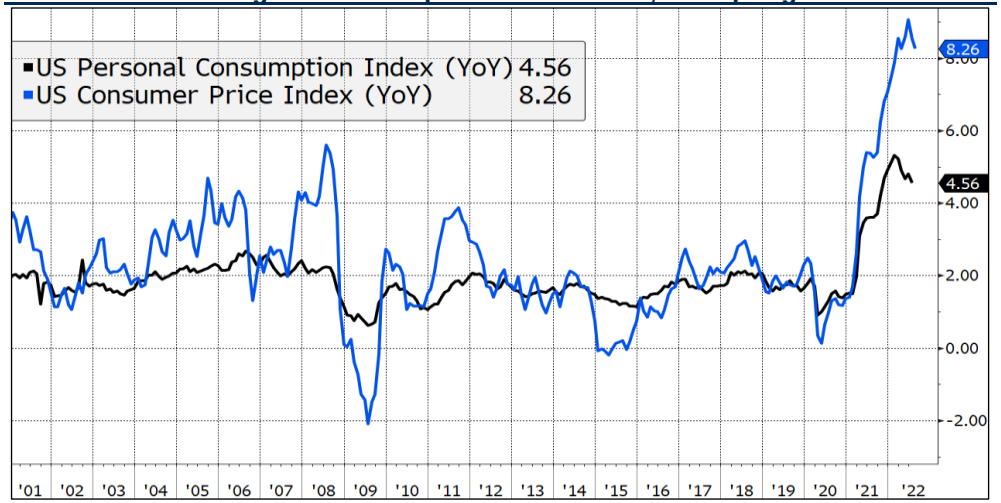
**"Life can only be understood backwards, but it must be lived forward" – Soren Kierkegard**

After last Tuesday's inflation data came in higher than expected (see chart, top right), the market had its worst day since June of 2020 and finished the week down more than -5%. This week, the Federal Reserve (FED) is set to react to that data and increase interest rates aggressively again. We have belabored enough about the state of the global economy and the FED in the IMG Viewpoint report released last Thursday (the interactive webcast is scheduled for this Thursday at Noon, and will include updated commentary on the FED's upcoming interest rate decision). Instead, let's turn to the discussion around cyclical trends in market valuation.

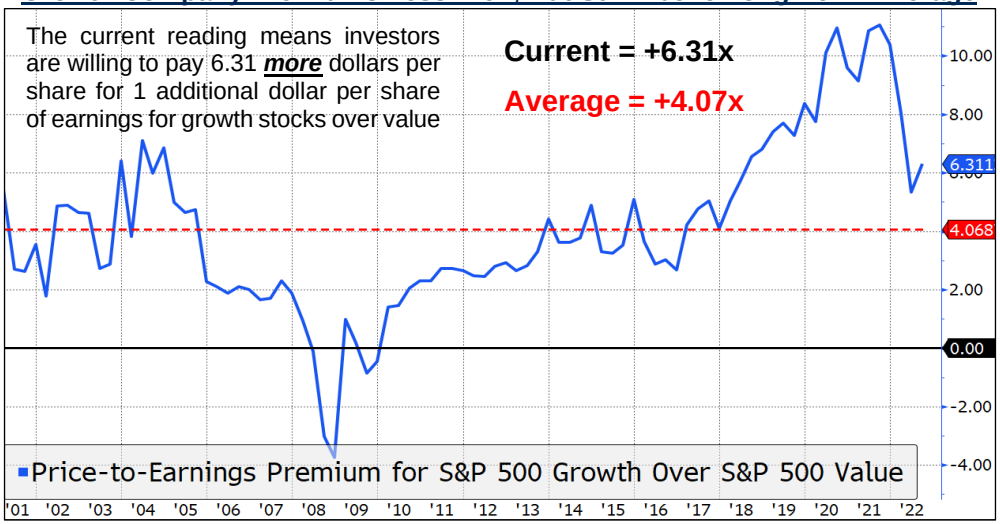
There is always a lot of talk about growth stocks versus value stocks when dissecting market returns. Growth is a relatively simple concept to understand. The company is consistently growing faster than average, as measured by growth in earnings, cash flows, revenue, etc. Value is much harder term to define, as it can mean something different to everyone (e.g. there is "value" in growth, if an investor thinks the market underappreciates it). For the sake of this discussion we'll stick with the standard definition. A value stock is one that trades at lower valuation multiples because the company is growing at or below average. This does not mean these are less profitable companies. New cars cost more than used cars, despite the similar usefulness, because people like shiny new toys and view used cars as needing constant maintenance just to stay on the road. Many investors view growth and value companies similarly, rightfully or not (I've had my used car for 13 years with few issues). As such, growth companies almost always trade at a premium to value companies, based on price-to-earnings ratios (see chart, bottom right). That is just "on average" though. Growth obviously outperformed value in the speculative Dot-Com Bubble, but value outperformed for the 7+ years after and even traded at a premium to growth at one point. Investors had become understandably skeptical of growth company projections after the bubble burst.

Since the turn of the century, the average growth premium over value has been around +26%. Since 2022 began, value stocks have outperformed growth stocks by nearly +15%. Even with value outperforming over the last 9 months, the current growth premium sits at around +43% over value. There may still be some room for value to continue outperforming. That's not guaranteed though. The last 15 years or so has shown us that global central banks are more than willing to go to great lengths to incentivize growth through keeping ***(cont.)***

**Inflation Came in Higher-Than-Expected Last Week, Prompting Market Turmoil**




**Growth Company Premiums Less Rich, But Still Above Long-Term Average**




Sources: Top – Bloomberg LP; Bottom – Bloomberg LP

## ABOUT INVESTMENT MANAGEMENT GROUP

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interest rates lower for longer. We always recommend allocations to both growth and value, even if ***marginally*** tilted in one way or the other along the way depending on the market environment and valuations.

Additionally, a similar conversation around valuation premiums could be had regarding U.S. stocks versus non-U.S. stocks. With a high level of affluence and the Dollar being the world's reserve currency, the U.S. economy is typically the cleanest shirt in the dirty laundry when global economic growth comes into question. The U.S. valuation premium has been above average for a while now though (see chart, top right), and any number of things could prompt a reversion that favors non-U.S. markets. Most notably, but not limited to, a resolution in Ukraine. It would lead to some of the best performance days for non-U.S. markets immediately following. If an investor has a long-time horizon, the more attractive valuations in non-U.S. stocks should help alleviate the current volatility in the short run. Historically, that has been the case.

We continue to maintain that investors should stay invested near their target equity allocations, with the understanding that recession risks are rising. It's tempting to think one can navigate this uncertainty by moving investment assets around en masse trying to predict which areas will lead in performance (growth vs. value, U.S. vs. non-U.S., large companies vs. small companies, etc.), but the reality of trying to do this usually ends up mired in lots of emotional decisions based out of fear or greed. We spend a lot of our time analyzing the investment markets from the rearview, only to make decisions for the future. Investors must not get caught in the recency bias trap of assuming that current top performing investments will continue and over allocating to those areas. When looking backwards to make decisions for the future, one must look at multiple market cycles to understand where we stand today. A well-diversified portfolio across all segments of the market is still prudent for most investors.

## 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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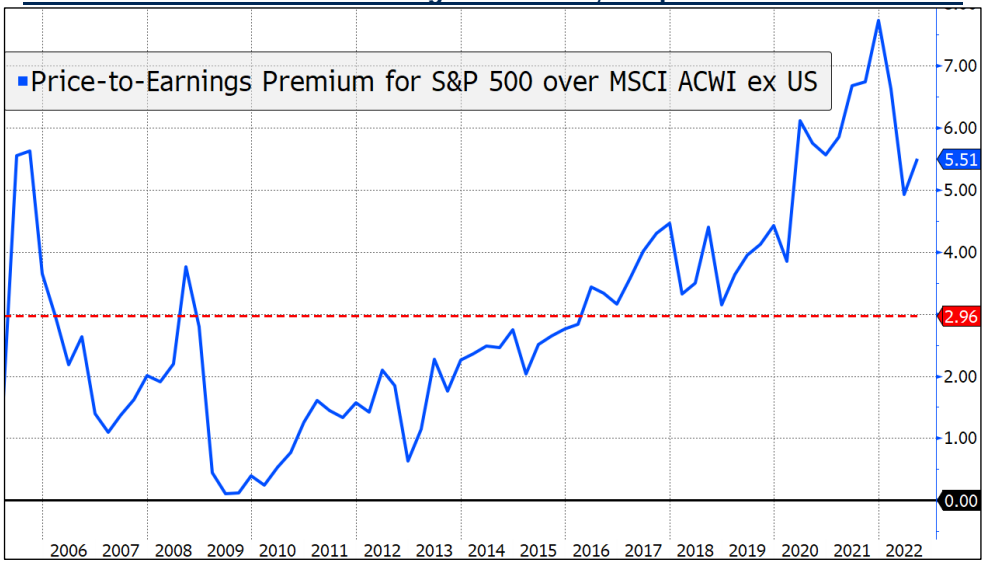
Alex supports the portfolio management team through market research that aids asset allocation decisions and due diligence on third party investment managers. He has a BSBA in finance, as well as a certificate in integrated investment management, and holds the CFA designation as a member of the Chartered Financial Analyst Institute and the Kansas City Society of Chartered Financial Analysts.

**Non-U.S. Markets Still Offer Long Term Value, Despite Ominous Forecasts**




Source: Bloomberg LP

## 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 9/16/2022)

| 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 | -17.81% | -12.11% | 10.69% | 11.06% | 12.39% | 28.68% |
| Equity | U.S. Mid Cap Equities | S&P 400 | -15.31% | -10.43% | 8.18% | 7.85% | 10.57% | 24.73% |
| Equity | U.S. Small Cap Equities | Russell 2000 | -19.18% | -18.48% | 5.57% | 5.85% | 9.10% | 14.78% |
| Equity | Developed ex. U.S. Equities | MSCI ACWI ex U.S. | -20.59% | -21.33% | 1.10% | 1.12% | 4.04% | 8.32% |
| Equity | Emerging Markets Equities | MSCI Emerging Mkts | -21.35% | -23.61% | -0.11% | -0.56% | 2.06% | -2.32% |
| Fixed Income | Broad Aggregate | BB Aggregate | -12.38% | -13.19% | -2.10% | 0.22% | 1.22% | -1.54% |
| Fixed Income | U.S. Treasury | BB U.S. Treasury | -11.44% | -12.27% | -2.13% | 0.07% | 0.78% | -2.32% |
| Fixed Income | U.S. Treasury Inflation Prot. | BB U.S. Inflation Linked | -10.48% | -9.24% | 2.23% | 2.68% | 1.41% | 6.00% |
| Fixed Income | U.S. Investment Grade | BB U.S. Invest. Grade | -12.73% | -13.69% | -0.89% | 1.41% | 2.59% | -1.04% |
| Fixed Income | U.S. High Yield | BB U.S. High Yield | -12.03% | -11.81% | 0.49% | 2.30% | 4.20% | 5.28% |
| Fixed Income | U.S. Leveraged Loans | CS Leveraged Loan | -1.38% | -0.46% | 2.76% | 3.45% | 3.92% | 5.40% |
| Fixed Income | U.S. Municipals | BB Municipal Bond | -10.07% | -10.09% | -0.92% | 0.97% | 2.14% | 1.52% |
| Fixed Income | Non-U.S. Gov't Bond | FTSE Non-U.S. WGBI | -23.78% | -27.15% | -8.60% | -4.58% | -2.70% | -9.68% |
| Fixed Income | Emerging Markets Debt | JPMorgan EMBI | -18.47% | -20.24% | -4.46% | -1.47% | 1.47% | -1.51% |
| Real Assets | Real Estate | FTSE NAREIT | -20.22% | -10.95% | 2.06% | 4.88% | 6.89% | 43.24% |
| Real Assets | Energy Infrastructure | Alerian MLP | 27.74% | 29.43% | 5.72% | 3.29% | 1.35% | 39.85% |
| Real Assets | Broad Commodities | Bloomberg Commodity | 17.72% | 18.41% | 12.76% | 6.54% | -2.39% | 27.05% |
| Real Assets | Oil | WTI Crude | 13.16% | 17.22% | 10.61% | 11.27% | -1.50% | 55.01% |
| Real Assets | Gold | Gold COMEX | -8.52% | -4.66% | 3.59% | 4.83% | -0.56% | -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% | 1.58% | 0.83% | 0.33% | 0.08% |
| Secured Overnight Fin. Rate (SOFR) | 2.28% | 2.29% | 1.54% | 1.45% | 0.79% | 0.30% | 0.05% |
| 90-Day Treasury Rate | 3.06% | 2.52% | 2.27% | 1.56% | 0.97% | 0.38% | 0.03% |
| 2-Year Treasury Rate | 3.87% | 3.28% | 3.17% | 3.18% | 2.61% | 1.91% | 0.22% |
| 5-Year Treasury Rate | 3.63% | 3.05% | 3.10% | 3.34% | 2.84% | 2.14% | 0.84% |
| 10-Year Treasury Rate | 3.45% | 2.90% | 2.99% | 3.23% | 2.84% | 2.17% | 1.34% |
| 30-Year Treasury Rate | 3.51% | 3.15% | 3.16% | 3.28% | 3.05% | 2.47% | 1.88% |
| 3-Mon/10-Yr Treasury Spread | 0.39% | 0.37% | 0.72% | 1.67% | 1.87% | 1.79% | 1.31% |
| 2-Yr /10-Yr Treasury Spread | -0.42% | -0.39% | -0.19% | 0.05% | 0.23% | 0.26% | 1.12% |
| 6-Month CD Rate | 0.94% | 0.90% | 0.54% | 0.42% | 0.37% | 0.15% | 0.15% |
| 1-Year CD Rate | 1.44% | 1.35% | 0.98% | 0.78% | 0.75% | 0.30% | 0.29% |
| 2-Year CD Rate | 1.65% | 1.56% | 1.18% | 0.98% | 0.91% | 0.34% | 0.33% |