



QUARTERLY MARKET REVIEW • RETROSPECTIVE

Third Quarter 2022

Persistent inflation and aggressive Federal Reserve rate increases pushed both stocks and bonds lower for a third straight quarter.

Data as of September 30, 2022 | Retrospective review prepared October 2026
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THE QUARTER AT A GLANCE

A summer rally faded as the Fed turned up the heat

-5.3%**S&P 500**

Price return for the quarter, its third straight quarterly decline

3.83%**10-YEAR TREASURY YIELD**

Sept. 30 close, up from 1.51% at the start of 2022

3.00%–3.25%**FED FUNDS TARGET**

After the Sept. 21 increase, the fifth of the year

8.3%**INFLATION (CPI)**

August, year over year, down slightly from June's 9.1% peak

01**A summer rally faded.**

Stocks climbed in July and early August on hopes that inflation had peaked, then fell to new lows for the year by the end of September.

02**The Fed kept raising rates quickly.**

Two three-quarter-point increases lifted the Fed's benchmark rate to 3.00%–3.25%, up from near zero in March.

03**Bonds offered little shelter.**

Rising interest rates pushed bond prices lower for a third straight quarter, an unusual stretch in which stocks and bonds fell together.

U.S. STOCKS

Stocks fell for a third straight quarter, ending at new 2022 lows

The S&P; 500 fell 5.3% in the third quarter, the Nasdaq fell 4.1%, and the Dow Jones Industrial Average fell 6.7%. For the S&P; 500 and the Nasdaq, it was the first three-quarter losing streak since 2009.

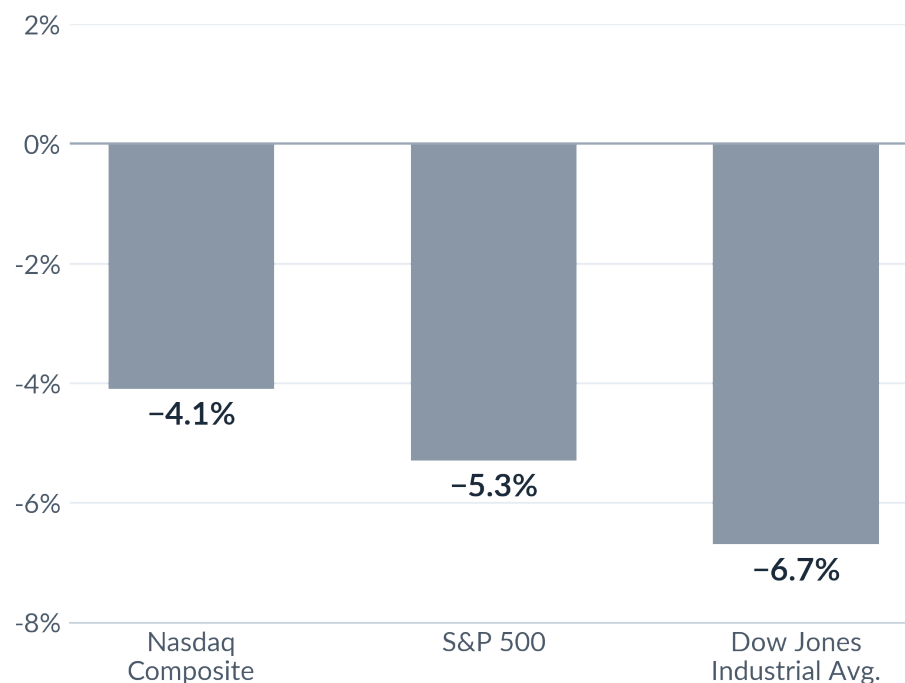
The quarter started well. Stocks rallied through July and into August as investors hoped inflation was close to peaking. That hope faded as the Fed signaled more rate increases ahead, and the S&P; 500 had its worst September since 2002.

By September 30, the S&P; 500 was down nearly 25% for the year, firmly in bear-market territory. Energy remained the only major area of the market with gains for the year.

WHY IT MATTERS

Bear markets are uncomfortable, but they are a normal part of long-term investing. Selling after large declines can lock in losses and make it harder to participate when markets recover.

Third-quarter price returns, major U.S. indexes



Source: S&P Dow Jones Indices; Nasdaq. Price returns, June 30 to September 30, 2022. Indexes are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

INTEREST RATES AND THE FED

The Fed raised rates at the fastest pace in decades

The Federal Reserve raised its benchmark rate by three-quarters of a percentage point in both July and September, bringing it to a range of 3.00% to 3.25%. At the start of the year, it had been near zero. The Fed made clear it was prepared to keep raising rates until inflation came down.

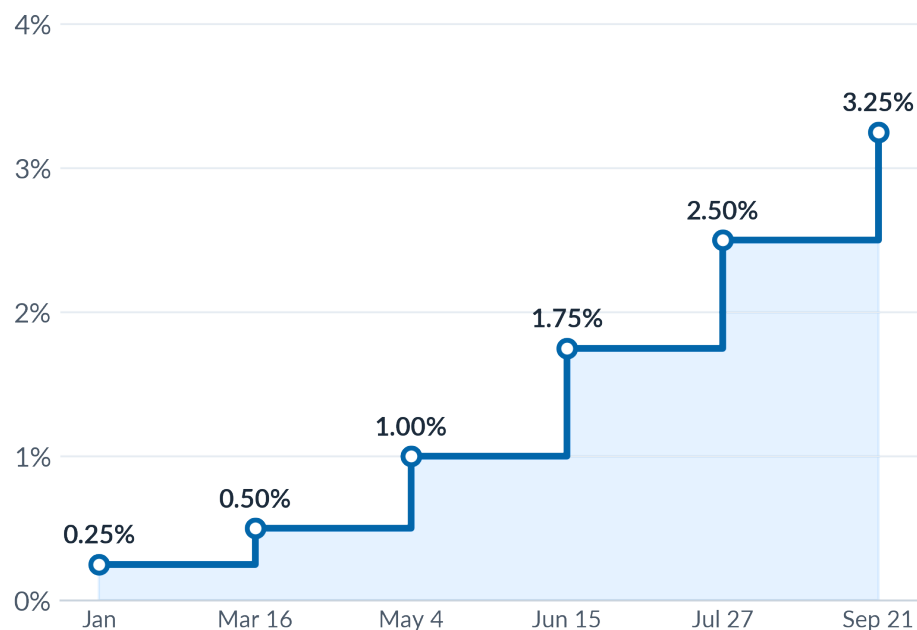
Longer-term rates followed. The 10-year Treasury yield rose from 2.98% at the end of June to 3.83% at the end of September, briefly touching 4% late in the month. It began the year at 1.51%.

Because bond prices fall when rates rise, bonds had another difficult quarter, adding to losses from earlier in the year.

WHY IT MATTERS

Higher rates hurt bond prices in the short run, but they also mean new bonds and savings pay more. Investors who hold bonds for income begin earning those higher yields as older bonds mature.

Federal funds target rate (upper bound), 2022



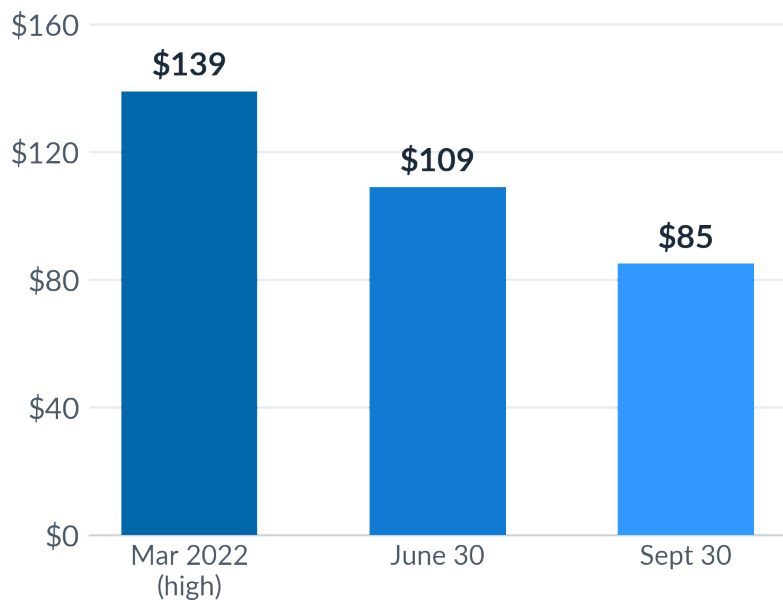
Source: Board of Governors of the Federal Reserve System, FOMC statements. Upper bound of the target range after each change.

OIL AND INFLATION

Oil prices eased, but inflation spread beyond energy

Oil prices fell sharply over the summer as worries about a slowing global economy reduced expected demand. Brent crude ended September near \$85 a barrel, down from about \$109 at the end of June and well below its March high of roughly \$139 after Russia's invasion of Ukraine. It was oil's first quarterly decline since early 2020.

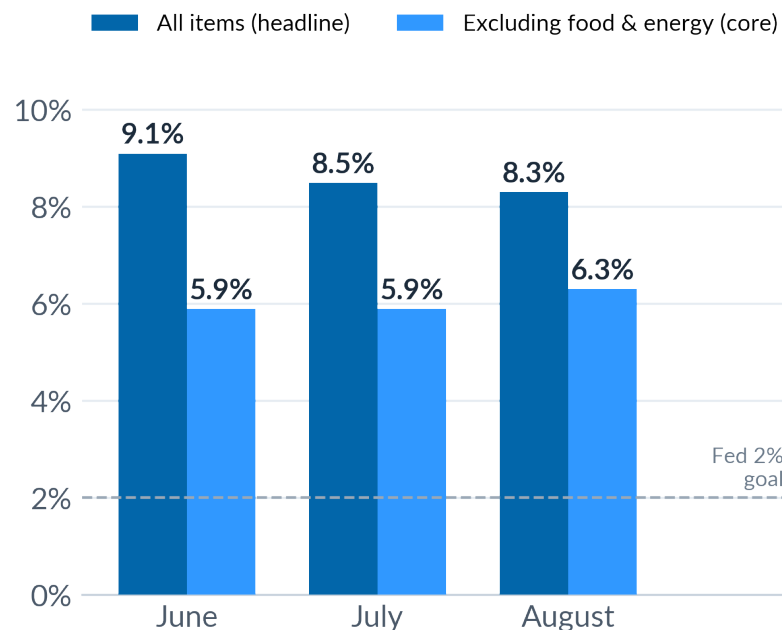
Brent crude oil futures, dollars per barrel, 2022



Source: ICE Futures Europe, Brent front-month settlement prices. March figure is the 2022 high.

Lower gasoline prices helped overall inflation ease from 9.1% in June, the highest since 1981, to 8.3% in August. But core inflation, which leaves out food and energy, rose to 6.3%. That told the Fed that price increases were spreading to rent, services, and other everyday costs.

Consumer price inflation, year over year, 2022



Source: U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers.

LOOKING BACK

What came next

Stocks bottomed in October

The S&P; 500 reached its 2022 closing low on October 12, just days after this quarter ended, and finished the year about 7% above its September 30 level.

Inflation came down

Overall inflation fell steadily from its 9.1% peak, reaching 3.4% by December 2023.

The Fed kept going

The Fed raised rates six more times, reaching 5.25%–5.50% in July 2023, its highest level since 2001, before holding steady.

Markets recovered

The S&P; 500 gained about 24% in 2023, recovering much of the ground lost in 2022.

KEEPING PERSPECTIVE

Periods like the third quarter of 2022 test every investor's patience. Looking back, the quarter ended close to the market's low point for the cycle. No one could have known that at the time, which is why a long-term plan matters more than any single forecast. Past performance is not a guarantee of future results.

IMPORTANT INFORMATION

Definitions, sources, and disclosures

Definitions. The S&P 500 tracks 500 large U.S. companies. The Nasdaq Composite includes more than 3,000 stocks listed on the Nasdaq exchange and is weighted toward technology. The Dow Jones Industrial Average tracks 30 large U.S. companies. The 10-year Treasury yield is the annual return on a 10-year U.S. government bond held to maturity. The Consumer Price Index (CPI) measures changes in prices paid by urban consumers; core CPI excludes food and energy. Brent crude is the main global benchmark for oil prices. The federal funds rate is the Federal Reserve's benchmark short-term interest rate.

Sources. S&P Dow Jones Indices; Nasdaq; Board of Governors of the Federal Reserve System (FOMC statements; H.15 Selected Interest Rates); U.S. Department of the Treasury; ICE Futures Europe; U.S. Bureau of Labor Statistics. Data as of September 30, 2022, unless otherwise noted. The "Looking back" page reflects data through December 2023.

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