Quarterly Outlook

OCTOBER 2022

Tandem Collective Funds®
Tandem ETF Portfolios®

Third Quarter 2022

Central banks around the world continued to tighten monetary policy aggressively to slow stubborn inflation, forcing bond and stock prices down simultaneously for the third consecutive quarter. While stocks staged yet another impressive bear market rally during the summer, the S&P 500 ended the quarter down -23.9% year to date while investment grade bonds finished down -14.6% over the same period.

Index/Instrument	Category	Q3 2022 Total Return	2022 YTD Total Return (as of 9/30/2022)
S&P 500	Large-capitalization stocks	-4.89%	-23.88%
S&P 400 MidCap	Mid-capitalization stocks	-2.48%	-21.54%
S&P 600 SmallCap	Small-capitalization stocks	-5.21%	-23.19%
NASDAQ 100	Large-capitalization stocks	-4.42%	-32.35%
Russell 2000 Index	Small-capitalization stocks	-2.18%	-25.11%
MSCI World ex USA	Developed markets international stocks	-9.09%	-25.83%
MSCI Emerging Market	Emerging markets international stocks	-11.46%	-26.98%
Bloomberg Barclays US Aggregate Bond Index	Investment-grade US bonds	-4.75%	-14.61%
Bloomberg Barclays US Treasuries	US government bonds	-4.35%	-13.09%
Bloomberg Barclays US Investment Grade Corps	US investment-grade corporate bonds	-5.06%	-18.72%
Bloomberg Barclays US Corporate High-Yield Bond Index	US corporate high-yield bonds	-0.65%	-14.74%
Bloomberg Barclays US MBS Index	US mortgage-backed securities	-5.35%	-13.66%
Bloomberg Barclays Global Aggregate Bond Index	Global investment-grade bonds	-6.94%	-19.89%
Bloomberg Barclays Global High-Yield Bond Index	Global high-yield bonds	-2.74%	-19.15%
Bloomberg Barclays Investment Grade US Convertibles	US high-grade convertible bonds	-2.54%	-11.64%

Going forward, corporate profit growth is expected to slow as higher rates filter through the economy.

With inflation more difficult to tame than expected, all major asset classes experienced losses in the third quarter as investors realized the "Fed pivot" (a shift away from aggressive interest rate hikes) does not seem imminent. US and international bonds and stocks, commodities, and real estate all produced negative returns. Within the S&P 500 only the Consumer Discretionary and Energy sectors saw positive returns while the Real Estate and Communication Services sectors were the worst performers. Emerging-market stocks fell the most, hurt by the surging US dollar, which was up 14% year to date as of the close of the quarter.

Both the speed and magnitude of the Fed's interest rate increases have been aggressive compared to previous hiking cycles, leading to abnormal bond losses—an asset class known for considerably less downside volatility.

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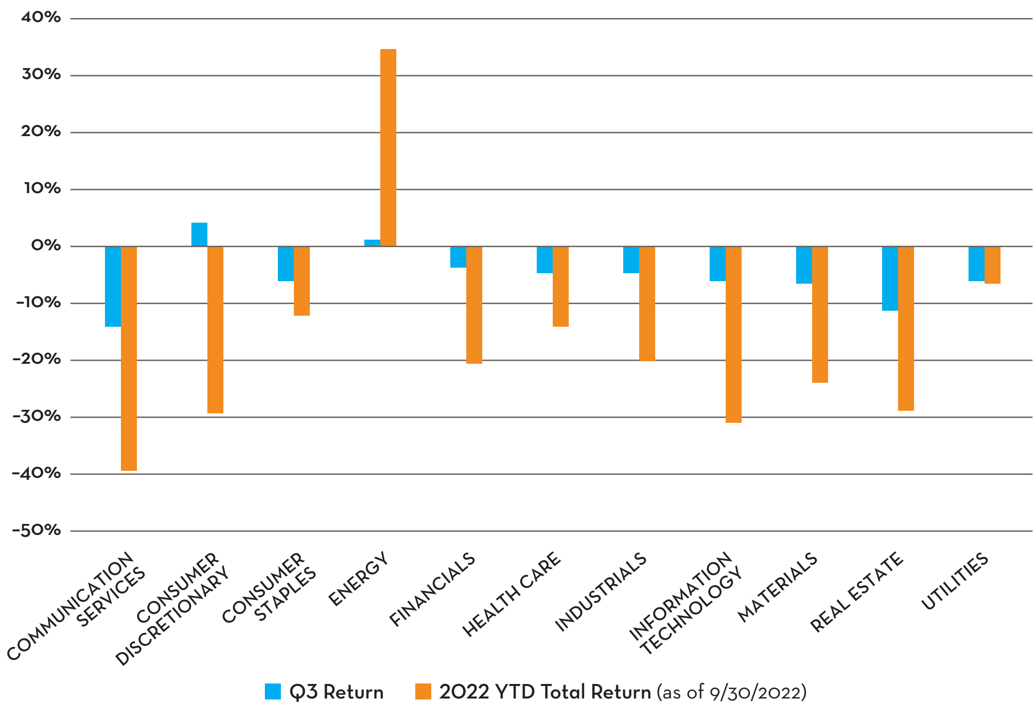
Slow to react to a growing inflation problem, the Fed left no ambiguity regarding the direction of future monetary policy. Comments from Fed Chairman Powell indicate interest rate increases will likely continue until there is a consistent slowdown in monthly inflation indicators, at the expense of overall growth. While economic data has weakened and pockets of inflation have slowed, investors do not expect the hiking cycle to end until early 2023 when the federal funds rate is expected to reach approximately 4.6%.

S&P 500 Sector Returns



Going forward, corporate profit growth is expected to slow as higher rates filter through the economy. Fortunately, stock valuations have adjusted considerably lower over the past year, making expected returns more attractive. Yet until overall economic demand and supply are more balanced, the Fed seems determined to keep up their inflation fight with restrictive interest rates and quantitative tightening (balance sheet management), pressuring both bond and stock returns. For now, the Fed's number one priority is price stability, a necessary component to create a better future and a more stable base from which to begin the next expansion.

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