North Carolina Community Foundation

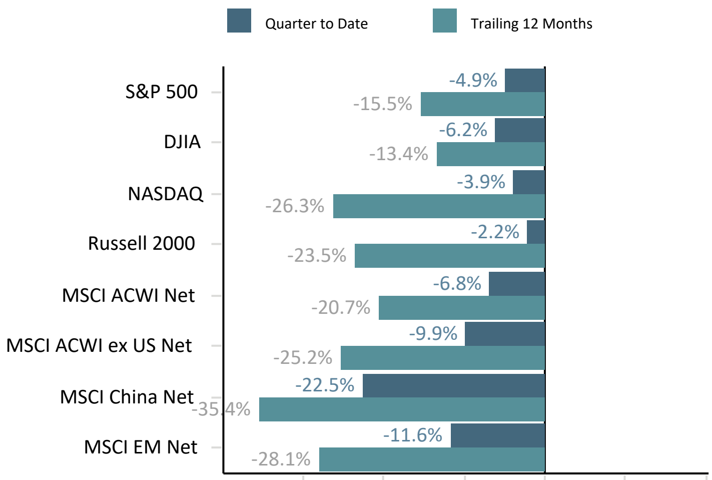
Data as of September 30, 2022

Market Commentary - Q3 2022

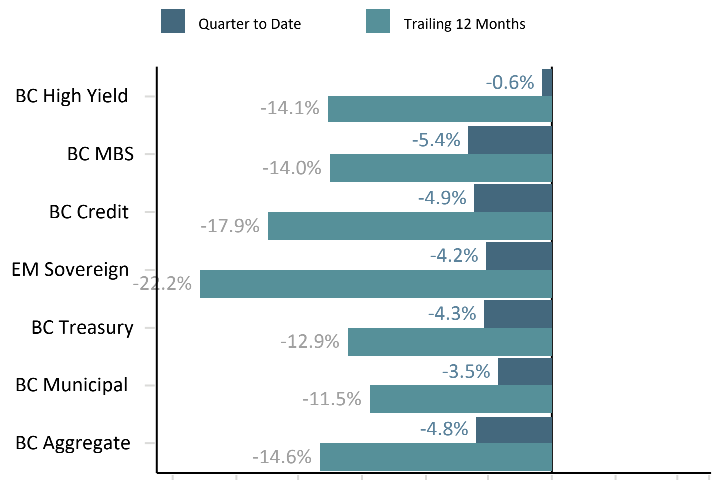
During 3Q22, global inflationary pressures continued to flare, prompting central banks to respond by tightening monetary policy. After multiple years of lower-for-longer interest rates, this policy normalization led equities and bonds to new bear market lows by late September. The traditional 60% stock/40% bond portfolio fell 22.7% YTD, the worst nine month return in more than 50 years following over 10% annualized returns for the 40 years ended December 2021.

Even though corporate earnings showed limited evidence of margin and earnings pressures from higher input costs and slowing growth, equities extended their first-half losses, with the S&P 500 reaching 3,586 by September 30, down 23.9% since December 31, and down 25.6% from its January 3 peak. Meanwhile, US investment grade fixed income, represented by the Bloomberg US Aggregate Index, tracked toward its weakest performance since its 1976 inception, down 14.6% since the end of 2021.

Equity Sector Performance



Bond Market Performance



Equity Markets Commentary

Equity asset classes generally declined in 3Q22. In the US, the growth style outperformed the value style, while small-caps outpaced large-caps. The S&P 500 fell 4.9%, despite experiencing a mid-quarter bear market rally of 17.4%. Consumer Discretionary (+4.4%) and Energy (+2.3%) posted positive returns while the remaining nine sectors declined, led by Communication Services (-12.7%) and Real Estate (-11.0%). Despite negative returns, Financials (-3.1%) and Industrials (-4.7%) outperformed the S&P 500, while other sectors lagged by mid-single-digit declines.

Other US indices turned lower to notch greater than 20% year-to-date losses, and global and international equities fell even more than the US, sapped by a strengthening US dollar. The MSCI ACWI Index, a global equity index, declined 6.7% while the MSCI Europe and MSCI Emerging Markets indices fell 10.4%, and 11.5%, respectively.

Fixed Income Markets Commentary

As a result of positive interest rate differentials, the US dollar strengthened against global currencies, and global fixed income returns, including Treasuries, corporates, mortgage-backed securities and municipals, came in nearly universally negative for the quarter. Additionally, since yields started 2022 at such low levels, fixed income asset classes faced additional rate sensitivity.

The Bloomberg US Aggregate Index declined 4.8% in the third quarter of 2022. Treasury yields rose through August and September. At 4.22%, the US two-year Treasury yield reached its highest levels since 2007. The US 10-year Treasury yield closed 3Q at 3.83%, up from 3.01% as of June 30.

Further information, including current portfolio size, performance, fees, underlying investment holdings and detail, can be obtained from the Foundation office by contacting 919-828-4387 or via email at info@nccommunityfoundation.org,
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