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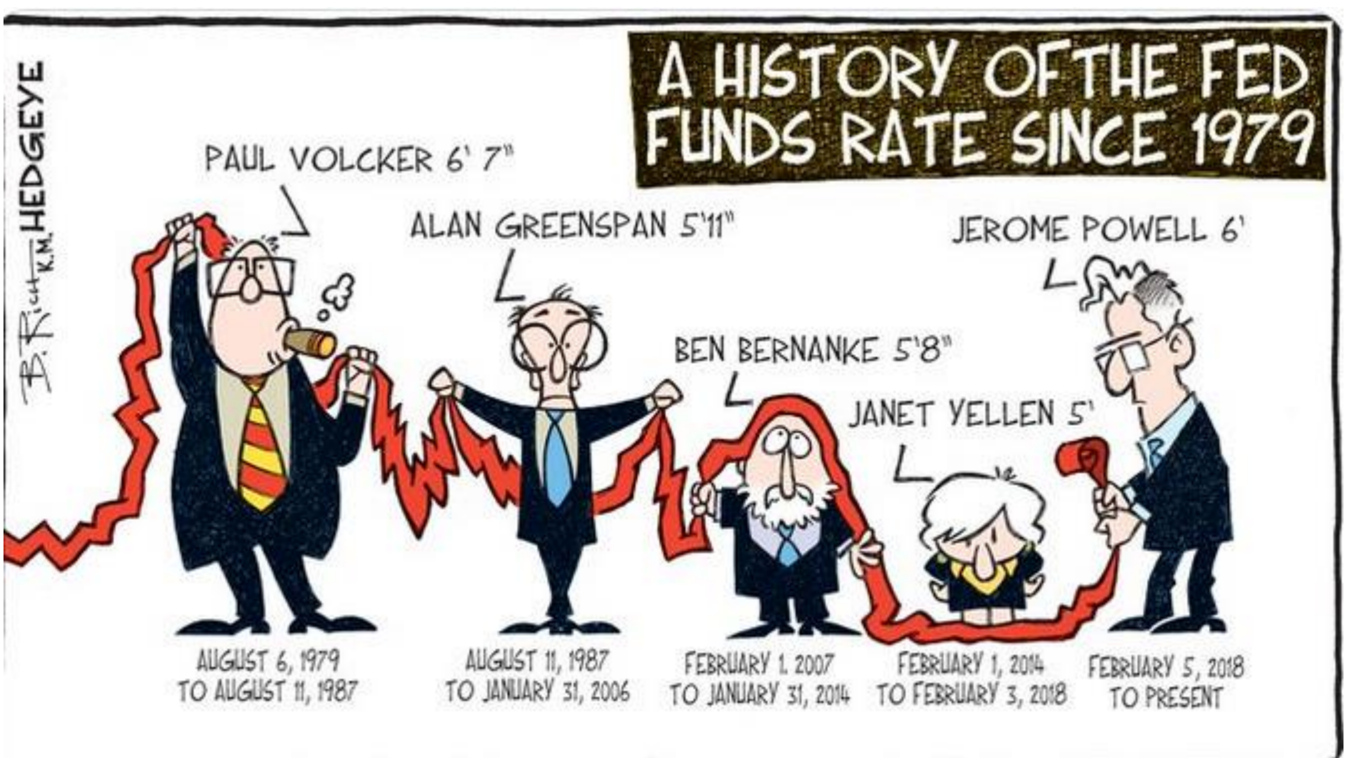
SUMMARY

1. The Federal Reserve – Standing Tall Against Inflation
2. Markets are worried Fed is hiking into an economic slowdown
3. Due to leads and lags, stock market performance and economic performance may differ
4. Mid-term election uncertain typically depresses stocks prior to post mid-term year high
5. Equity markets have performed best when there is a split Congress

The Federal Reserve - Standing Tall

The cartoon below was initially published in 2017 as a fun commentary on what to expect with the appointment of Jerome Powell as Federal Reserve Chairman. Despite the forecasting accuracy of the cartoon, economists would consider the height of the Federal Reserve Chairman and interest rates a spurious correlation. In statistics, a spurious correlation refers to a connection between two variables that appears to be casual but is not.

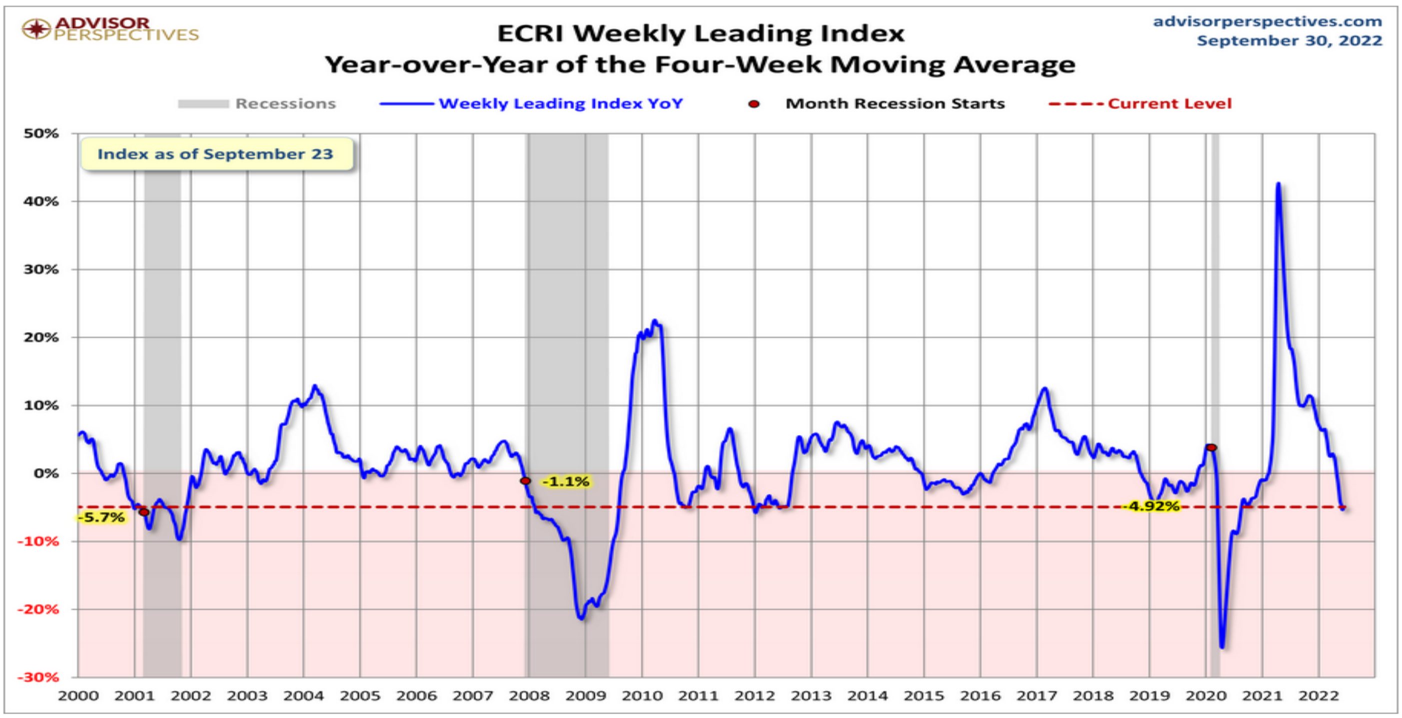
Meanwhile, Sciencedirect.com, the National Library of Medicine, and a variety of medical journals, have a wide range of academic papers on the impacts of a person's height on an individual's personality and health. An example of one such paper is Stulp, Buunk, Verhulst, and Pollet article titled "Human Height Is Positively Related to Interpersonal Dominance in Dyadic Interactions." They conclude that "human height is positively related to interpersonal dominance, and may well contribute to the widely observed positive association between height and social status." Other studies suggest increased height is positively correlated to assertiveness and independence. We therefore should not be surprised that Jerome Powell's Fed is being aggressive in its fight against inflation because he is both tall and would hate to lose social standing amongst his central banking peers.



Source: Hedgeeye.com

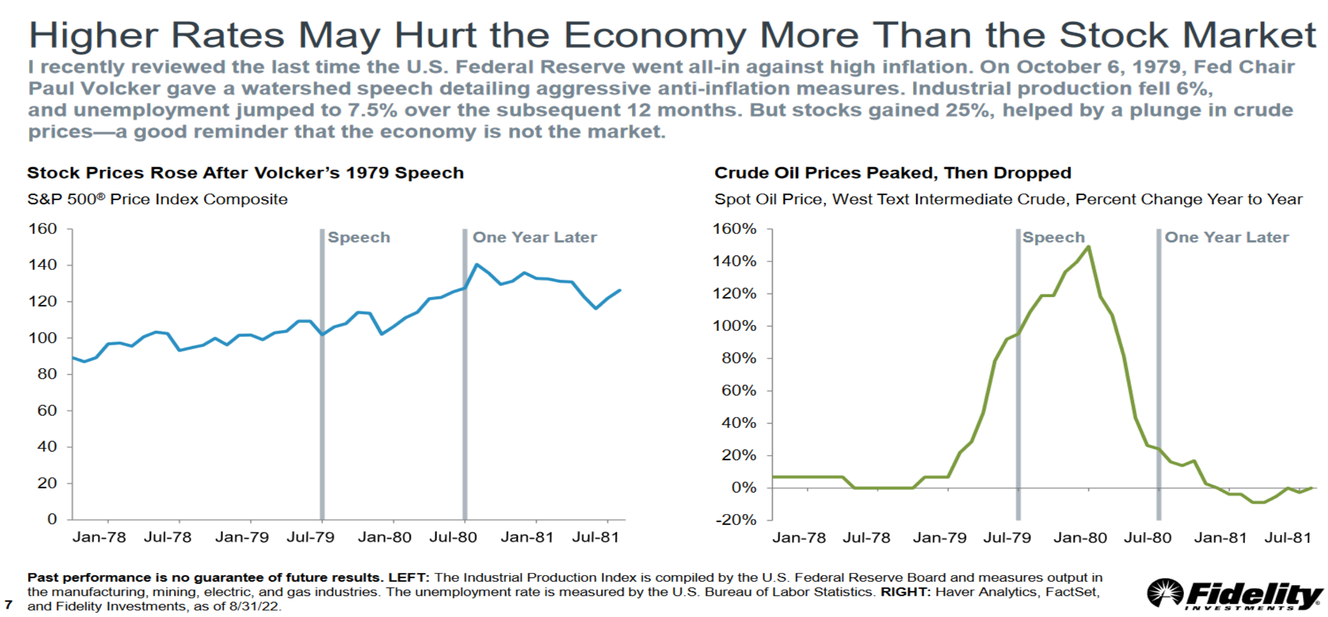
Hiking into a slowdown

The market is growing increasingly concerned that the Federal Reserve is hiking interest rates too much into a dramatic economic slowdown. The Economic Cycle Research Institute Weekly Index of Leading Economic Indicators chart below illustrates the sharp rebound from the Covid shutdowns and the subsequent "bullwhip" effect the economy is now experiencing. You can see a similar effect occurred after the 2007-2008 recession. The index is now at the point, however, where recessionary risk is heightened, so the market is concerned about the potential for a double dip recession, particularly if the Fed over does it.



The Stock Market and Economy

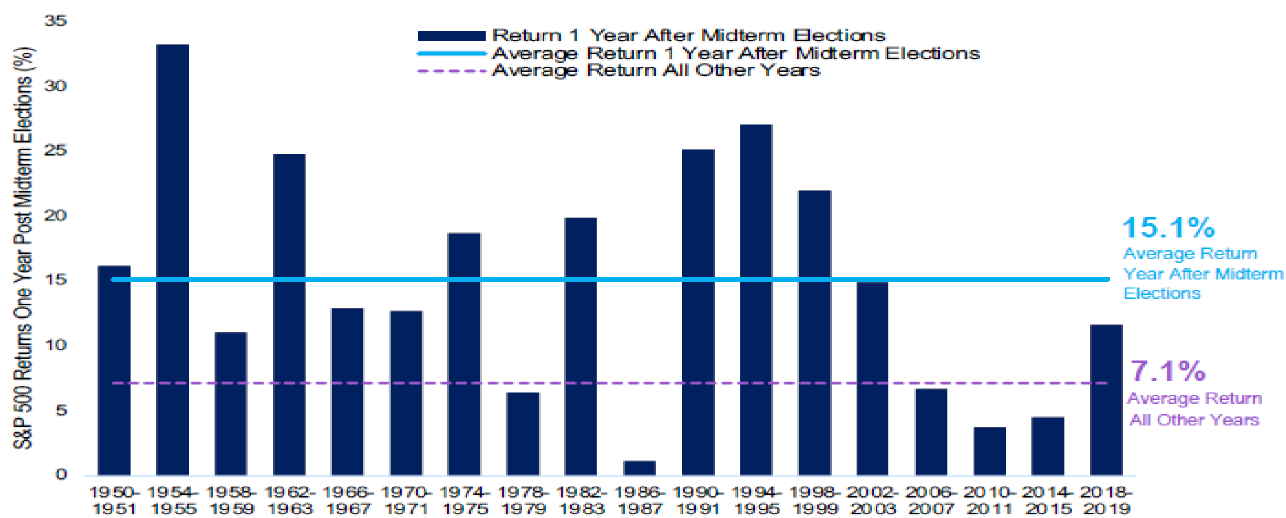
Fidelity recently examined the correlation between inflation, higher interest rates, the economy, and the stock market during the Paul Volcker's inflation fight. The charts below suggest that equity markets might be able to look through softening economic numbers.



Mid-Term Election Political Uncertainty Depresses Equity Market Returns

Political uncertainty typically depresses equity market returns during mid-term election years. As a discounting mechanism, investors must price in economic policies, and mid-term election years typically lead to a recalibration of policy. According to PGIM, one of our bond fund manager, the stock markets have historically performed better on average after mid-term elections.

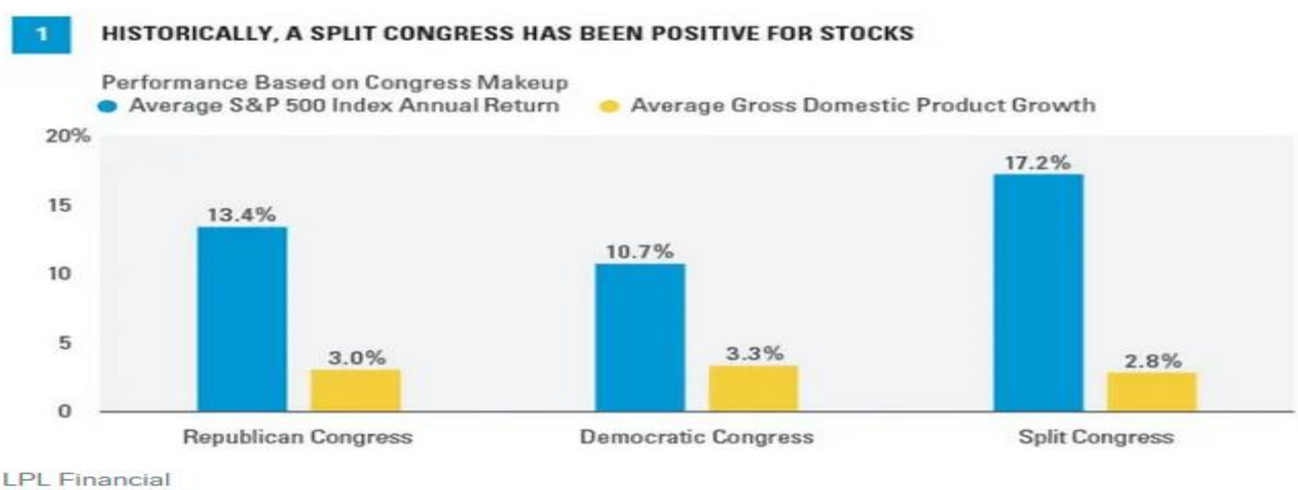
HISTORICALLY ATTRACTIVE STOCK MARKET RETURNS AFTER MIDTERM ELECTIONS



Source: Morningstar and S&P. **S&P 500 Index** is an unmanaged index of 500 common stocks of large U.S. companies, weighted by market capitalization. Indices are unmanaged and are provided for informational purposes only. Investors cannot directly invest in an index. **Past performance does not guarantee future results.**

Mid-Term Election Political Uncertainty Depresses Equity Market Returns

While voters want their "party" to win, LPL reports that the equity markets since 1950 have performed the best when there is split government. Business seems to prefer no change and compromise to bold policy initiatives.



Portfolio Outlook and Actions

Higher interest rates are positive for future returns for fixed income asset classes. In diversified portfolios, we believe there will opportunities to extend maturities and accept credit risk as inflation peaks and economic conditions weaken. Before making these changings, however, we are looking for confirmation that our inflationary view is correct. As the previous charts suggest, we are also constructive on equity markets for long-term investors, as companies ultimately have to pass through their increased costs. Historically, both higher inflation expectations and higher interest rates lead to higher equity market returns. This occurs because business must ultimately pass through their costs to customers, thought it does take time. As year-end approaches, we therefore be looking for opportunities for tax loss harvesting and rebalancing.

Key Index Performance

Index	QTD	YTD
S&P 500 (Large Capitalization Equity)	-5.28	-24.77
S&P 400 (Midcap Equity)	-2.88	-22.47
S&P 600 (Small Cap Equity	-5.59	-24.02
S&P 500 Growth Stocks	-3.86	-30.41
S&P 500 Value Stocks	-5.82	-16.56
S&P GSCI (Commodities)	-10.31	21.80
S&P U.S. Aggregate Bond Index	-3.98	-13.24
Balanced Weighting (60/40)	-4.76	-20.16

S&P 500 Sectors	QTD	YTD
Energy	1.65	33.94
Utilities	-5.99	-6.51
Consumer Staples	-6.95	-11.83
Health Care	-5.18	-13.08
Industrials	-4.72	-20.72
Materials	-7.13	-23.74
Financials	-3.10	-21.25
Real Estate	-11.03	-28.85
Information Technology	-6.36	-31.18
Communication Services	-11.58	-37.91
Consumer Discretionary	3.89	-29.85

*Source: S&P Dow Jones Indices

Thank you for the trust you have placed in us, particularly during this difficult market environment. As always, if you have further questions, please do not hesitate to contact your FinTrust investment advisor.

Sincerely,

Your FinTrust Investment Team.