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Q3 2022
MARKET & ECONOMIC REVIEW
Major Equity Market Indexes & Commentary

INDEX	DESCRIPTION	6/30/22	LOW CLOSE	HIGH CLOSE	9/30/22	QTD RETURN*
S&P 500	A market-capitalization weighted index of 500 large U.S companies.	3,785	3,586	4,305	3,586	-5.3%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	30,775	28,726	34,152	28,726	-6.7%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	11,029	10,576	13,128	10,576	-4.1%
Russell 2000	A market-capitalization weighted index tracking U.S. small-cap stocks.	1,708	1,656	2,021	1,665	-2.5%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies (in Yen).	26,393	25,936	29,223	25,937	-1.7%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,001	873	1,017	876	-12.5%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom (in Euro).	407	383	443	388	-4.8%

*** Excludes effects of dividends** **Sources: FactSet**

EQUITY MARKETS COMMENTARY

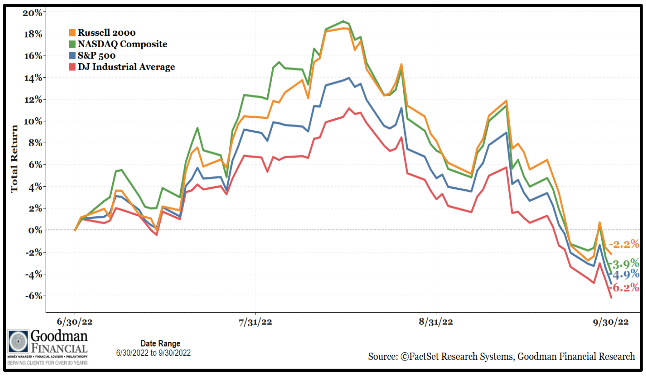
- Equity indexes inversely tracked interest rates during the quarter. As rates fell, stocks rose for the first half of the third quarter on hopes of moderating inflation and a more dovish Federal Reserve (Fed), however, those hopes quickly dissipated as the Fed made it clear that they will continue to raise rates to combat inflation at the risk of plunging the economy into recession. Equity markets received the message loud and clear leading all indexes lower in the second half of the quarter with nearly all major US indexes reaching new 52-week lows (right chart).
- As seen in the red matrix table below, Growth stocks held up better than Value stocks during the quarter in contrast to the first half of the year where Value had outperformed Growth. This resulted in a bit of a headwind for the GFC Equity Composite which benefited earlier this year from a Value slant but underperformed the S&P 500 during the quarter, although still ahead on a year-to-date basis.
- Mid-Cap stocks outperformed both Large and Small-Caps across styles with Mid-Cap Growth stocks performing the best of all sizes and styles. Small-Caps predominately underperformed with Small-Cap Value performing the worst in the quarter.

Table Comprised of the Following Indexes:

S&P 500 Large-Cap Total Return Index
S&P 500 Large-Cap Value Total Return Index
S&P 500 Large-Cap Growth Total Return Index
S&P 400 Mid-Cap Total Return Index
S&P 400 Mid-Cap Value Total Return Index
S&P 400 Mid-Cap Growth Total Return Index
S&P 600 Small-Cap Total Return Index
S&P 600 Small-Cap Value Total Return Index
S&P 600 Small-Cap Growth Total Return Index

Q3 2022 Market Segment Returns

	Value	Blend	Growth
Large	-5.8%	-4.9%	-3.9%
Mid	-4.0%	-2.5%	-0.7%
Small	-6.8%	-5.2%	-3.4%



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Q3 2022
MARKET & ECONOMIC REVIEW
Fixed Income Rates & Commentary

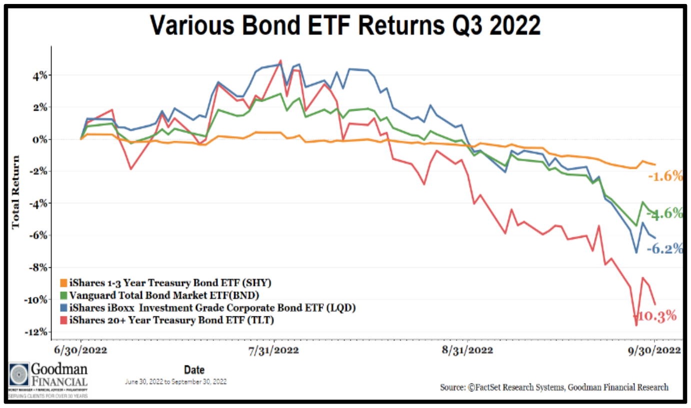
DESCRIPTION	6/30/22	9/30/22	QTD CHANGE IN BASIS POINTS*	DESCRIPTION	6/30/22	9/30/22	QTD CHANGE IN BASIS POINTS*
Federal Funds Target Rate	1.50%-1.75%	3.00%-3.25%	+150	15 Yr. Mortgage Rate	4.92%	5.96%	+104
90 Day Treasury Bill	1.75%	3.33%	+158	30 Yr. Mortgage Rate	5.81%	6.70%	+89
2 Yr. Treasury Note	2.92%	4.22%	+130	Prime Rate (U.S.)	4.75%	6.25%	+150
10 Yr. Treasury Note	2.98%	3.80%	+82	LIBOR (3 Month)	2.29%	3.75%	+146
30 Yr. Treasury Bond	3.14%	3.79%	+65	5-Year CD	0.39%	0.74%	+35

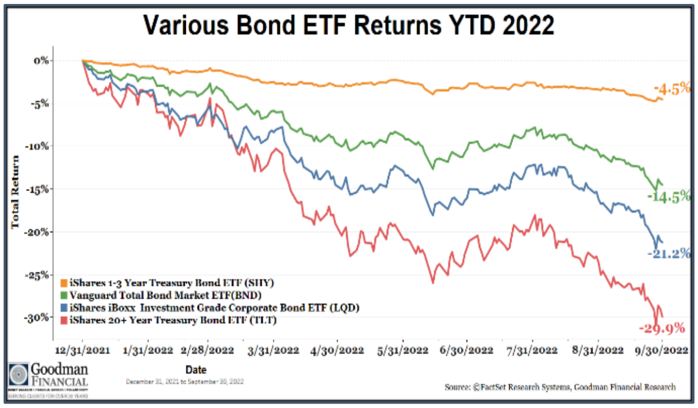
***One basis point is equal to 1/100th of 1% or 0.01%**

Sources: FactSet, Wall St. Journal, U.S. Treasury

FIXED INCOME COMMENTARY

- As seen in the table above, interest rates continued to rise in the third quarter as the Fed raised the Federal Funds Target Rate by 150 basis points, or 1.5%, to a target range of 3.0% to 3.25%. The new expectation for the peak Fed Funds rate is now 4.5%, which is projected to be reached sometime early next year.
- Short-term rates continue to rise faster than long-term rates as the yield curve continues to flatten. The 10-year to 2-year Treasury spread remains inverted (i.e., the 2-year Treasury yields more than the 10-year), which is a closely watch recessionary signal. However, the 10-year to 3-month spread (our preferred recession-watch measure) is still upward sloping with the 10-year yield of 3.80% sitting above the 90-day Treasury yield of 3.33%, indicating a recession may not be imminent.
- Mortgage rates are now the highest since 2007 with the 30-year Fixed Rate at 6.7%. The rapid rise in mortgage rates has been driven by the Fed's tighter monetary policy which is already cooling down at least one part of the economy – the housing market.
- Bond ETF returns were negative across all maturities during the quarter due to rising rates, adding to the losses for the year (charts below). The iShares 20+ Year Treasury Bond ETF (TLT) declined 10.3% in the third quarter, bringing the total decline in 2022 to 29.9%. Shorter maturity bond ETFs have fared better with the iShares 1-3 Year Treasury ETF (SHY) down only 1.6% in the third quarter, and down 4.5% year-to-date in 2022. This has proven to be a relative tailwind for GFC Fixed Income portfolios, which have benefited from a shorter maturity bond ladder.





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Q3 2022 MARKET & ECONOMIC REVIEW

U.S. Economic Commentary

INDICATOR	DESCRIPTION	6/30/22	9/30/22	QTD CHANGE
Weekly Initial Claims for Unemployment Insurance (in Thousands)	The number of new filings for unemployment insurance benefits. Most economists believe claims below 300,000 indicate a healthy labor market environment. **Weekly initial claims were the lowest in five months at the end of the quarter, and the current level is still historically low indicating a healthy and resilient labor market.**	231	193	-16.5%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%. **The unemployment rate fell back down to 3.5%, the level seen just prior to the pandemic and the lowest rate since 1969, indicating a still strong job market.**	3.6%	3.5%	-10 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wage growth of 1% during the quarter and 4.1% over the past year has not kept pace with current inflation rates causing real wage growth to be negative.**	$1,105	$1,120	+1.4%
Index of Consumer Sentiment	This index is published by the University of Michigan and reflects consumer attitudes towards the state of the economy. **Sentiment, while still historically low, increased significantly from the prior quarter as lower fuel prices likely gave consumers some reprieve from high inflation.**	50.0	58.6	+17.2%
ISM Purchasing Managers Index (PMI®)	This index represents economic activity in the manufacturing sector. Any value above 42.9 represents economic expansion. **The index reached its lowest level since the onset of the pandemic indicating the expectation of lower future demand.**	53.0	50.9	-4.0%
Existing Home Sales (in Millions) *	This data is provided by the National Association of Realtors®. It is a seasonally adjusted annualized rate and reflects completed transactions in houses, townhomes, and condominiums. **Existing home sales declined further during the quarter and are now below more normalized levels seen pre-pandemic. Home sales may likely be higher if not for historically low inventory levels of homes for sale.**	5.41	4.80	-11.3%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Utilization ticked down from last quarter but remains above pre-pandemic levels as manufacturers work to meet demand as supply chain issues began to finally lessen.**	80.3%	79.6%	-70 bps

***These items are as of 8/31/22, the date of the most recently published statistics**
Sources: FactSet, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor, Institute of Supply Management

U.S. ECONOMIC HEALTH

- The August 2022 show job openings fell by 1.1 million from the prior month to 10.1 million (left chart). While 10 million job openings is still more than 3 million higher than pre-pandemic levels, the August reading marks the largest monthly decline since the start of the pandemic as businesses appear to have adjusted hiring plans in anticipation of a slowing economy. This gives hope that the Fed's efforts to curb inflation by slowing the economy are working.
- The ISM Purchasing Managers Index (PMI) unexpectedly fell to 50.9 in September 2022, indicating the slowest growth in manufacturing activity since May 2020 when COVID forced factory shutdowns across the country. Economists expected a higher reading of 52.2, according to FactSet. The September reading suggests manufacturing companies are anticipating lower future demand driven by the continued rotation in spending from goods to services and higher borrowing costs.
- On the brighter side, Consumer sentiment jumped by more than 17% since June to end the third quarter at 58.6. The rise in sentiment is likely driven by the hope of moderating inflation which can be largely attributed to the recent decline in fuel prices. The national average gasoline price fell to about $3.75/gallon to end the quarter from nearly $5/gallon at the beginning of July (right chart). However, consumers are still feeling inflation pressure in other areas of spending, primarily housing and food costs, which explains why sentiment is still historically low.