Ridgetop Wealth Management
Market Update – October 2022

"If you don't have anything nice to say, don't say anything at all…"
There has not been much "nice" to talk about. The market's breakdown has been broad-based across virtually every sector and region. Ten of the 11 S&P 500 sectors have significant negative returns year-to-date. Long term Treasury bonds, usually a place for refuge in declining markets are down 28.8% through the end of the third quarter. Overall stocks and bonds have tumbled in tandem, producing the worst start for a 60% stock / 40% bond portfolio in nearly 50 years.[1]

Every time the market has rallied over the last few months it is on the heels of poor economic data and renewed hope of a policy pivot from the Federal Reserve. We have been talking about "elevated risk and a prudence of proceeding with caution" since our March 2022 Market Update.[2] We continue to maintain that cautious outlook and stance at this time.

Seasonality
The carnage over the last several months coincides with seasonal weakness as the period from late-August through mid-October is historically the toughest time of the year for stocks. Conversely, the seasonal winds shift as the calendar moves through October. On average, November and December are the two strongest months of the calendar year for stocks.

Market action year-to-date makes a year-end rally less likely, but not highly improbable. The bearish story is well known. Inflation data has forced the Fed into its most aggressive tightening cycle in four decades. Given the possible (likely) economic recession and earnings decline in the months ahead it may feel like the pessimism will never end. Well, this extreme pessimism by market participants is actually a positive divergence. Historically, the level of pessimism we have currently coincides with past major market lows - meaning the market often bottoms and then reverses upwards when this many people are fearful.[3]

A Year End Rally
Now that equities are entering their most favorable three-month period (Nov., Dec., Jan.),[4] the wind is at our backs. If more economic slack is reported in the coming weeks (unlike this morning's hot Producer Price Index report) it would reduce pressure on the Fed and bring about a better climate for equites. While it does not feel likely, we could see several weeks or even a couple months of green on our screen. This is good news.

The bad news is we would likely be further lowering equity exposure into market strength in the coming weeks/months if our indicators do not improve significantly. There are still too many problems to remain vigilant against to give this market the benefit of the doubt. The yield curve is inverted. The Conference Board Leading Economic Index (LEI) just decreased again. This is the six consecutive monthly decline in the US which is very potentially signaling a recession.[5] It is no secret that the

[1] Ned Davis Research
[2] Ridgetop Wealth Management – March 2022
[3] Ned Davis Research
[4] Ned Davis Research
[5] The Conference Board

housing market has gone ballistic over the past two years. Yet, there is now growing evidence that extremes in the housing market are coming undone. As much of the wealth in America are in our homes and consumers see the value of their largest asset going down, they are more likely to save rather than spend - which is the life blood of our economy. Lastly, and most importantly from our perspective, internal market action has been weak by almost every measure. We have seen consistent selling pressure, market breadth has been dismal, and more and more stocks and sectors continue to hit new lows.

In Conclusion

Since the early days of the secular bull market that started in 2009, equities have benefited from QE (quantitative easing) and zero interest rate policies. As inflation reared its head in 2022 markets have been rattled in response to reversals in those accommodative policies. The good news is the current weight of the evidence is we are experiencing a cyclical (shorter term) bear market within a secular (longer term) bull market. While painful, we have been through markets like this before. We will continue to watch for indicators and evidence that will dictate allocation and our outlook.

Especially in times like these, please do not hesitate to reach out if you have any questions or would like to discuss with us further.

Sincerely,

Ridgetop Wealth Management

[1] Ned Davis Research – 10/3/22
[2] Ridgetop Wealth Management – March 2022
[3] Ned Davis Research – 10/5/22
[4] Ned Davis Research – 10/10/22
[5] The Conference Board – 9/22/22

of other clients and charge an average price per share or unit and, when applicable, a pro-rata share of any fees. As a result, you may receive different prices and executions for the same securities as compared to other clients investing in the same PMP strategy. In addition, although we monitor performance dispersion and other characteristics of Accounts participating in PMP, investment opportunities will not necessarily be allocated among participating Accounts proportional to their overall amount invested.

Below are some of the general risk considerations associated with the investments included in the PMP investment strategies described in this Brochure. The descriptions are not meant to be a complete list of all investment risks. For more complete information regarding fees, expenses, risks and restrictions associated with these investments please review the offering documents and marketing materials. Investors should consult their tax advisor about their specific tax situation before investing in any securities. In addition, clients should familiarize themselves with the particular market risks and the other risks associated with the specific investment.

Two sources of research are available to UBS Financial Services Inc. clients. One source is written by UBS CIO Americas, Wealth Management. UBS CIO Americas, Wealth Management is part of UBS Global Wealth Management & Business Banking (the UBS business group that includes, among others, UBS Financial Services Inc. and UBS International Inc.), whose primary business focus is individual investors ("Private Clients"). The other source is written by UBS Investment Research. UBS Investment Research is part of UBS Investment Bank, whose primary business focus is institutional investors. The Private Client report style, length and content is designed to be more easily used by Private Clients. Because both sources of information are independent of one another and reflect the different assumptions, views and analytical methods of the analysts who prepared them, there may exist a difference of opinions between the two sources. Neither the Institutional report nor the Private Client report is necessarily more reliable than the other. The various research content provided does not take into account the unique investment objectives, financial situation or particular needs of any specific individual investor. If you have any questions please consult your Financial Advisor. UBS CIO Americas, Wealth Management is provided by UBS Financial Services Inc and UBS AG. UBS Financial Services Inc. is a subsidiary of UBS AG.

If you would like more details about any of the information provided, or you would like personalized recommendations or advice, please contact your Financial Advisor. We are here to help.

Neither UBS Financial Services Inc. nor any of its employees provide legal or tax advice. You should consult with your personal legal or tax advisor regarding your personal circumstances.

All of the recommendations made/positions held within the proceeding 12-month period are available upon request. Not all recommendations/holdings should be assumed to be profitable and future recommendations/holdings may not be profitable. Past performance is no guarantee of future results. Above is an overview of select portfolio holdings in the above-stated strategy of the PMP Portfolio Manager as of the date of this report. The portfolio is actively managed and holdings may be replaced at any point in time. The actual allocation within the individual portfolios may be different due to portfolio changes, market conditions or the imposition of investment restrictions.

The past performance of an index is not a guarantee of future results. Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices. Diversification does not guarantee a profit or protect against a loss in a declining financial market.

Except as specifically noted, the views expressed herein are those of the author and may not necessarily reflect the views of UBS Financial Services Inc. or its affiliates.

The information and data presented is believed to be reliable; however, their accuracy and completeness is not guaranteed by UBS Financial Services Inc. UBS does not assume any duty to update this information going forward.

Equities represent ownership interest in a corporation. Historically, equities are more risky than fixed income or cash investments as they experience greater volatility risk, which is the risk that the value of your investment may fluctuate over time. The value of investments in equity securities will fluctuate in response to general economic conditions and to changes in the prospects of particular companies and/or sectors in the economy. These general risk considerations associated with equity investments are not meant to be a complete list of all investment risks.

It is important that you discuss your specific investment situation with your Financial Advisor before making any investment decision.