Rising interest rates and softer equities were the major themes in September as markets continued to digest an aggressive Federal Reserve.

Overall, for the month of September, the S&P 500 declined by [9.34%](https://www.tradingview.com/x/rcEY1SFJ/), the Nasdaq 100 shed [10.60%](https://www.tradingview.com/x/wgIPKJDc/), and the Dow Jones Industrial Average decreased by [8.84%](https://www.tradingview.com/x/4Jrk7Fjj/).

**Pricing Power**

Elevated inflation continues to persist, with the most recent Personal Consumption Expenditures (PCE) Index data showing consumer inflation taking a [4.9% jump](https://www.cnbc.com/2022/09/30/pce-inflation-august-2022-inflation-accelerated-even-more-than-expected-in-august.html) in August from a year earlier versus expectations of 4.7%. The August Core Consumer Price Index (CPI) was also running hotter than expected.

The higher CPI and PCE keep the Federal Reserve’s door open for further hikes. It seems that the benchmark overnight Fed Funds rate increasing from 0.25% to 3.25% has not had the desired impact on inflation–at least not yet.

We will get our next peek at the widely followed CPI metric for September on Thursday, October 13th.

**Government Bond Yields Rise**

The benchmark 10-year note yield continued to rise during September, increasing by [21.46%](https://www.tradingview.com/x/KXT139Q4/) during September and settling at [3.804%](https://www.tradingview.com/x/KXT139Q4/) on the final day of trade for the month.

As interest rates rise, bond prices typically decline, resulting in higher bond yields. As such, the recent surge in interest rates can create opportunities for certain investors seeking higher fixed-income yields.

That said, while interest rates–and subsequently bond yields–have risen steadily, we do need to keep in mind that rates have been much higher in the distant past. Let’s not forget that 30-year mortgage rates [exceeded 17%](https://fred.stlouisfed.org/series/MORTGAGE30US) in 1981 and 1982.

**Energy Slide**

Continuing the downtrend beginning in June, crude oil prices traded lower in September, with the November futures contract closing under $80. This marked the first front-month contract monthly close under $80 [since December](https://www.tradingview.com/x/tXlxj7tL/).

Overall, November crude declined by [10.72%](https://www.tradingview.com/x/7BKA6rn0/) in September, a similar percentage decline to some major U.S. equity indexes.

The decline in crude has translated to lower gas pricing in most U.S. markets. The national [average price](https://gasprices.aaa.com/) per gallon was $3.799 (regular) and $4.575 (premium) as Americans began their daily commute on October 3, the first workday of the month.

**Fed Overtightening?**

The Fed raised rates by [75 basis points](https://www.investopedia.com/fed-raises-rates-75-bp-at-september-2022-meeting-6741920) in the September meeting, bringing the current target rate to 3.00% - 3.25%. As we have witnessed this rapid rise in the overnight lending rate, some have speculated that the Fed is [overtightening](https://fortune.com/2022/09/28/fed-oversteering-inflation-signal-suggests-cooling-powell-dollar-economy-sonnenfeld-tian/).

It seems that the Fed may be opting for a [hard landing](https://markets.businessinsider.com/news/stocks/inflation-market-recession-prediction-fed-rate-hike-hard-landing-nomura-2022-9): getting the rate hikes done swiftly and aggressively in hopes the resulting fallout is short-lived. In contrast, a [soft-landing](https://www.cnn.com/2022/09/26/investing/premarket-stocks-trading/index.html) approach would most likely have been to raise slowly and without tipping the U.S. into recession.

Many indicators show that the United States is already in a recession (and has been for some time). Of course, the definition of a “recession” is still up for debate.

**Labor Market**

The most recent jobs report showed that employers added 315,000 jobs in August, a solid showing but still the [lowest monthly gain](https://www.cnbc.com/2022/09/02/august-2022-jobs-report-.html) since April 2021.

Unemployment increased, resting at 3.7% vs. 3.6% expected. [Expectations](https://www.cbsnews.com/news/fed-interest-rate-hikes-unemployment-increase-layoffs-inflation/)are for further increases in the unemployment rate as the Fed continues its rate hike campaign.

We’ll get the latest economic data on employment during the first week of October.

**Reduced Earnings Expectations**

Third-quarter earnings season will be in mid-October. As of September 30th, analysts had reduced their expectations by 6.6% versus their forecasts from three months ago, according to data from [Factset](https://insight.factset.com/largest-cuts-to-eps-estimates-for-sp-500-companies-for-q3-2022-in-more-than-two-years).

So far, data from [FedEx](https://newsroom.fedex.com/newsroom/global-english/fedex-corp-reports-first-quarter-fy23-results) and [Nike](https://www.cnbc.com/2022/09/29/nike-nke-earnings-q1-2023.html) has been challenging and indicative of the current environment.

Through September 30th, 15 of the 500 S&P 500 companies have reported. Results are 8.3% lower versus one year ago, while revenues are higher (+10.5%). In addition, 66.7% of the companies beat earnings per share (EPS) estimates and 53.3% beat revenue estimates.

The expected culprits are supply chain issues, inflation, and the stronger dollar.

**The Takeaway**

September featured a tone of volatility over the Fed’s outlook and expectations for further rate hikes ahead. Inflation metrics remain elevated, and the Fed seems to be on a hard-landing mission to quell inflation.

The current tone is bearish, and a great indicator of that is the [Fear and Greed Index](https://www.cnn.com/markets/fear-and-greed). At last check, it was showing a 15 on a scale of 1-100, which indicates extreme fear.

While the environment is challenging, this current cycle had to play out sooner or later, as monetary policy is variable. Easy monetary policy can’t remain easy forever, and tight monetary policy won’t remain tight forever.

Long-term investors will experience multiple cycles of expansion and contraction over a lifetime. Depending on their goals, there may be alternative opportunities in fixed-income, while for others, simply continuing along with current strategies may be suitable. Remember to think long-term.

**With that said, how are things in your neck of the woods?**If there is anything on your mind that we can help with, please feel free to contact us!