

An aerial photograph of a city skyline at sunset. The sky is a mix of blue and orange, with scattered clouds. The city features numerous skyscrapers, some of which are reflecting the golden light of the setting sun. A river flows through the city, with several bridges crossing it. In the foreground, there are green trees and a parking lot. The overall scene is a vibrant and detailed representation of a modern urban environment.

KESTRA

INVESTMENT
MANAGEMENT

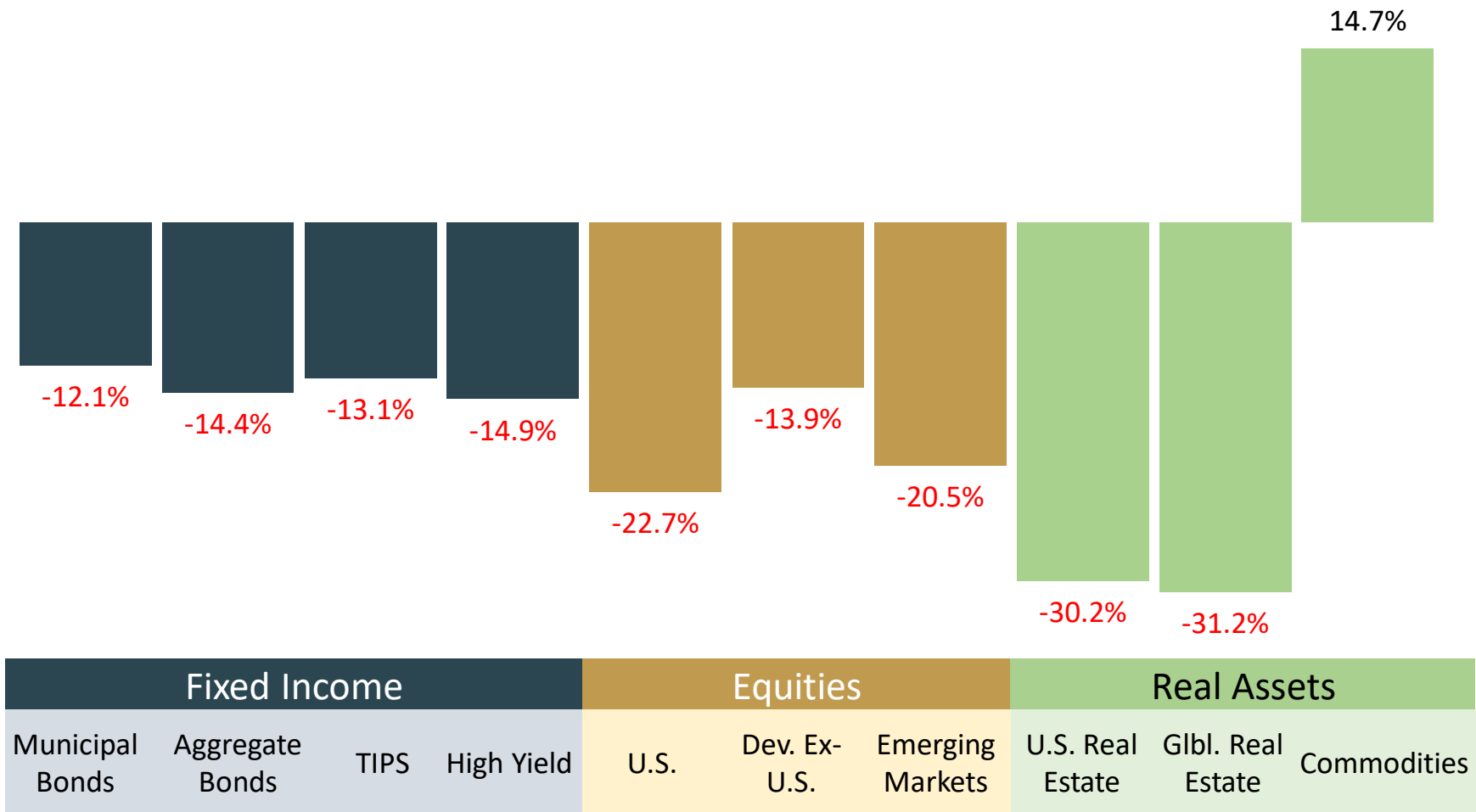
Update on Market Volatility
10/3/22

An aerial photograph of a city skyline, likely New York City, featuring a dense cluster of skyscrapers and modern buildings. In the foreground, a river flows through a green park area, with several bridges crossing it. The sky is a clear, deep blue.

Market Returns

US Markets

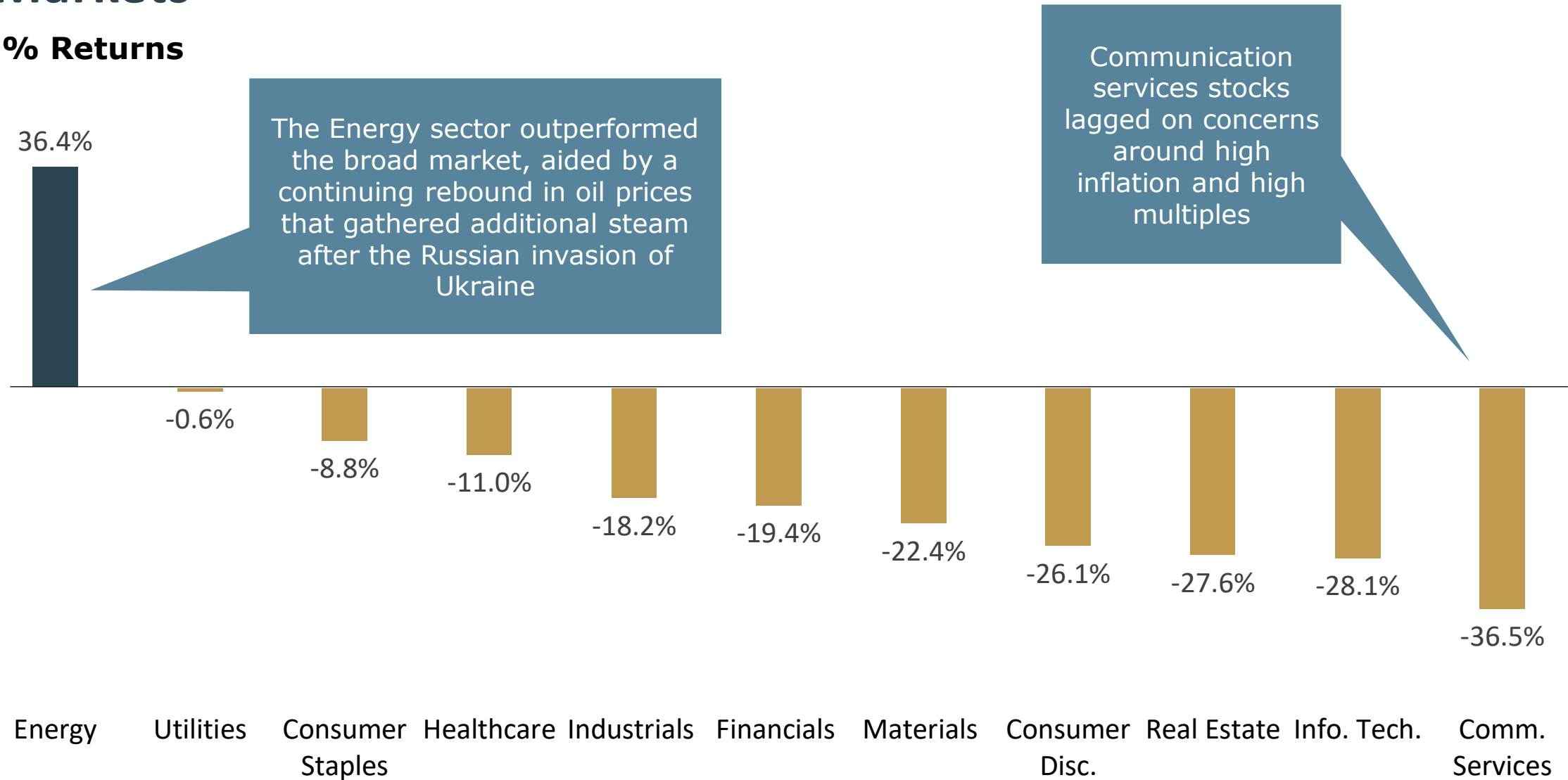
YTD % Returns



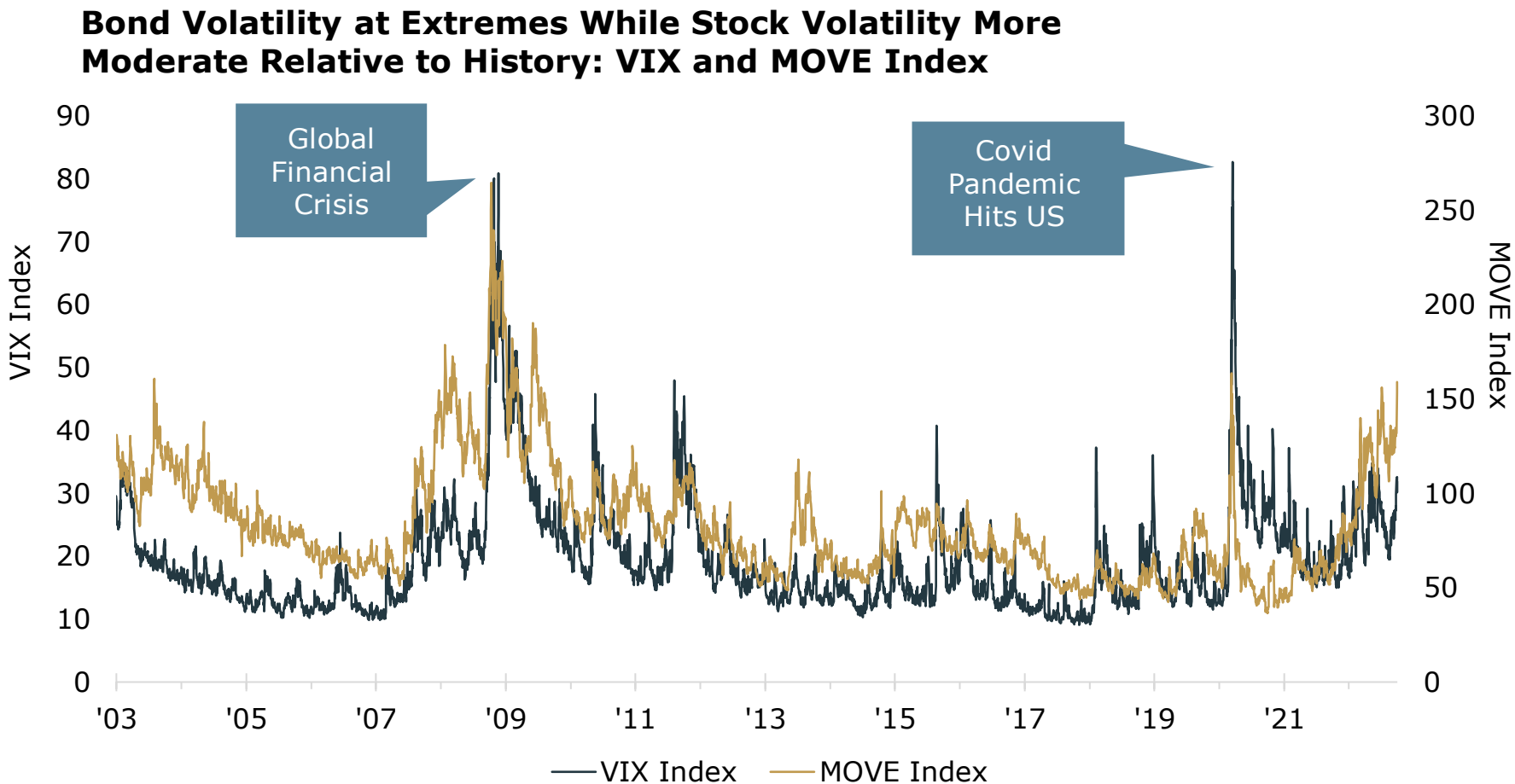
Past performance is not a reliable indicator of current or future results. Indexes are unmanaged and not subject to fees. It is not possible to invest directly in an index. Note: views are from a U.S. dollar perspective. Source: Kestra Investment Management with data from FactSet. Index proxies: Bloomberg Municipal Bond Index, Bloomberg US Aggregate, Bloomberg US Treasury Inflation Protected Notes (TIPS), Bloomberg US High Yield-Corporate, S&P 500, MSCI World ex USA, MSCI EM, Dow Jones US Select REIT, Dow Jones Global X US, and Bloomberg Commodity Index. Data as of September 29, 2022.

US Markets

YTD % Returns

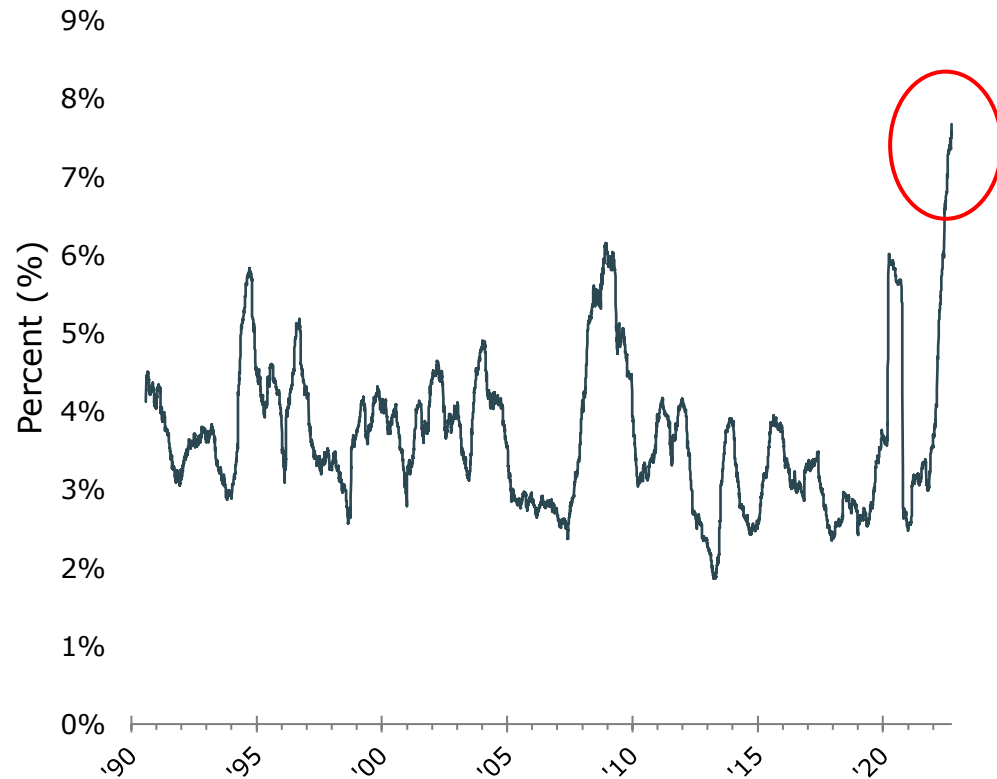


Volatility Elevated

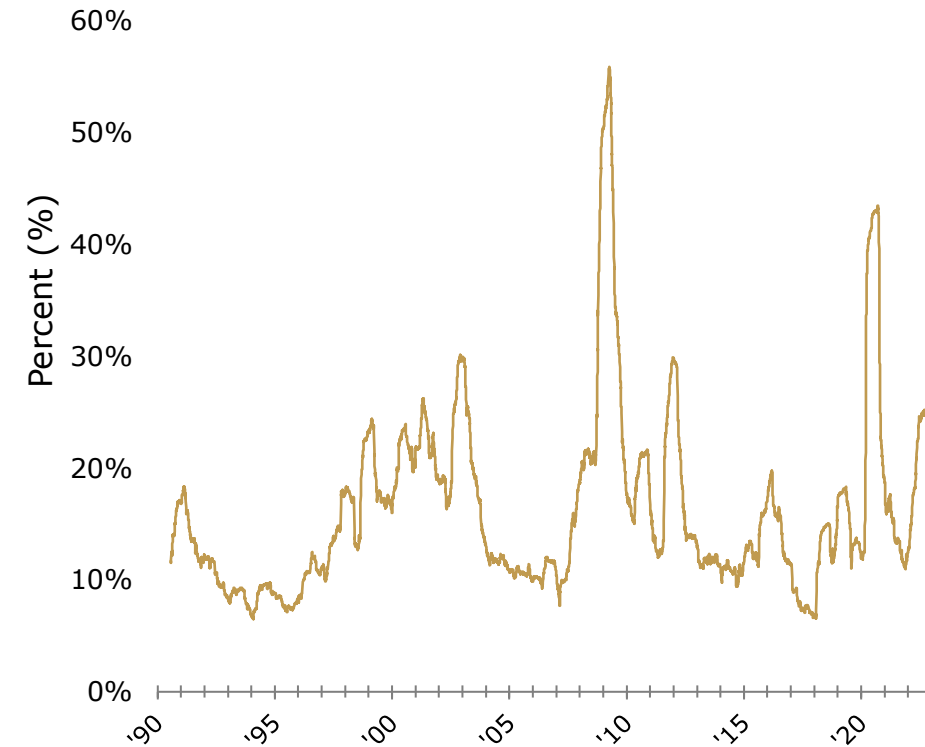


Bond Volatility at Extremes

Bond Volatility: Bloomberg U.S. Aggregate Index



Stock Volatility: Russell 3000 Index



Bond Market Volatility

Money with Murphy 9/28/2022



“Back to that existential question – can bonds still provide income and lower volatility? While not without risk, we think yes. The defensive line is battered but not broken....

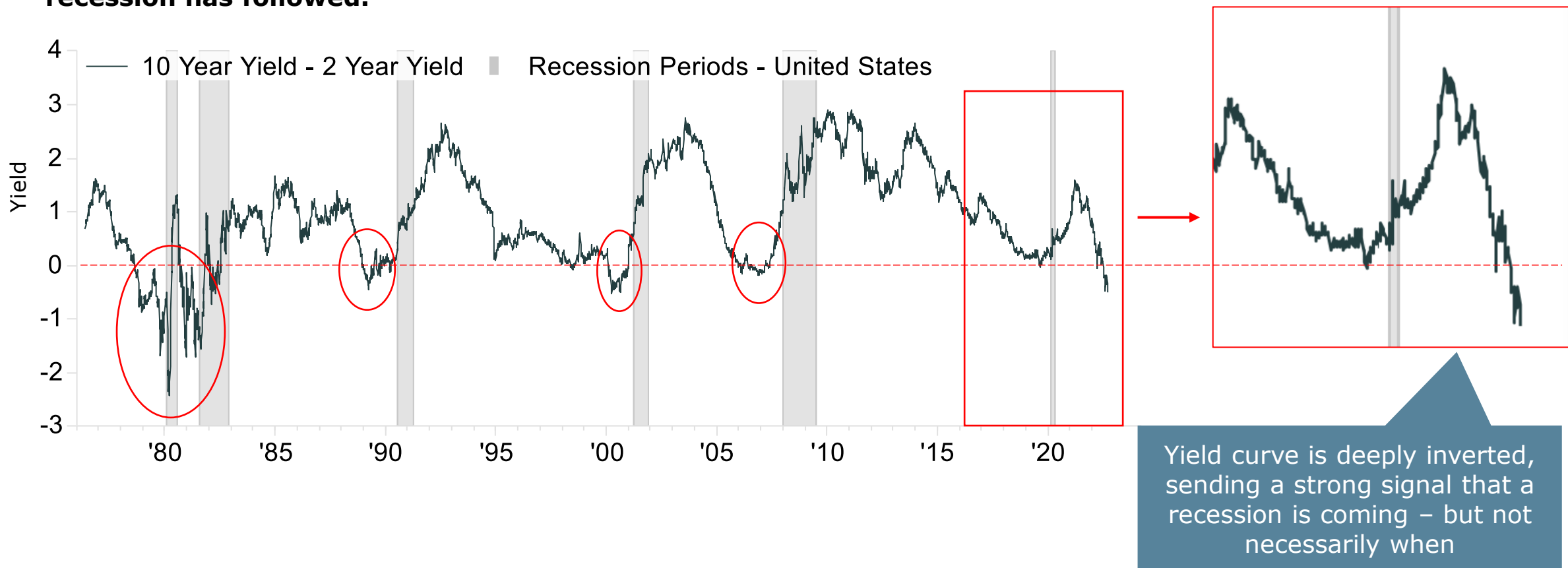
Bonds can not only act as the defensive line in a portfolio – providing both income and lower volatility – they may also provide a near-term opportunity.”

A wide-angle photograph of a city skyline at dusk. The sky is a deep, dark blue. In the foreground, a river flows through a lush green park area, with several bridges crossing it. The middle ground is filled with a dense collection of skyscrapers and high-rise buildings, some of which are illuminated with blue and white lights. The word "Recession?" is written in a large, white, sans-serif font, centered over the city skyline.

Recession?

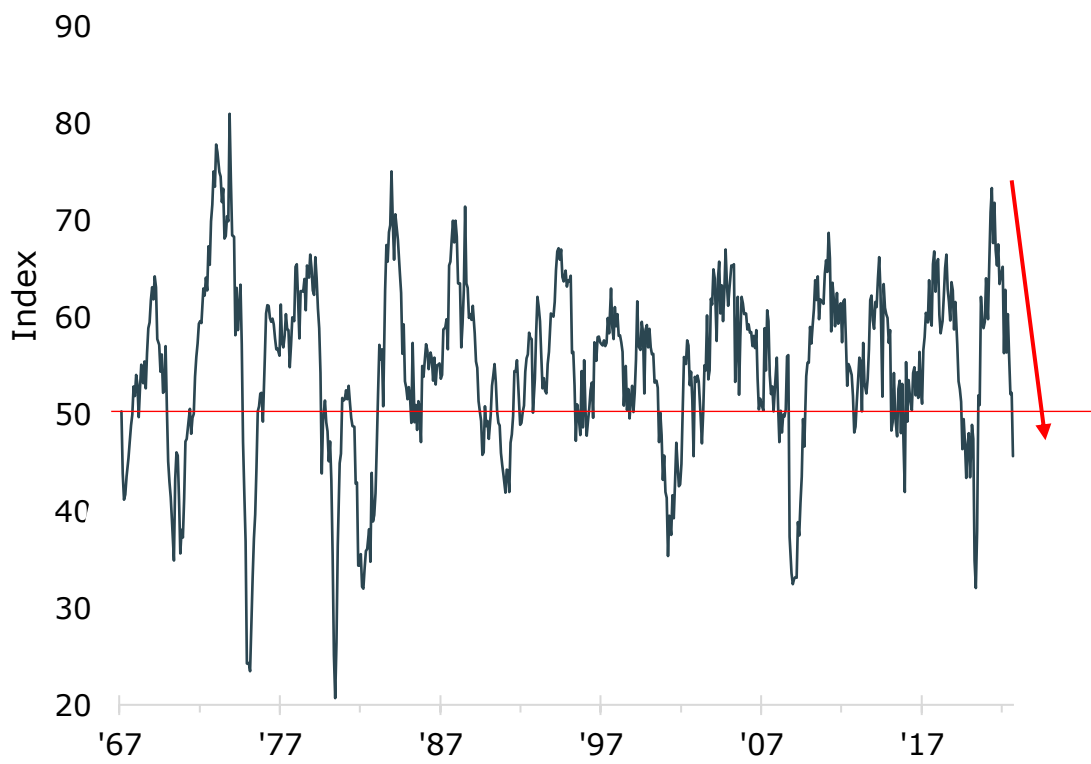
Treasury Yield Curve Deeply Inverted

Yields on the 10-year Treasury bond are about equal with 2-year yields. In previous periods when the 10-year yield has dropped below the 2-year, a recession has followed.

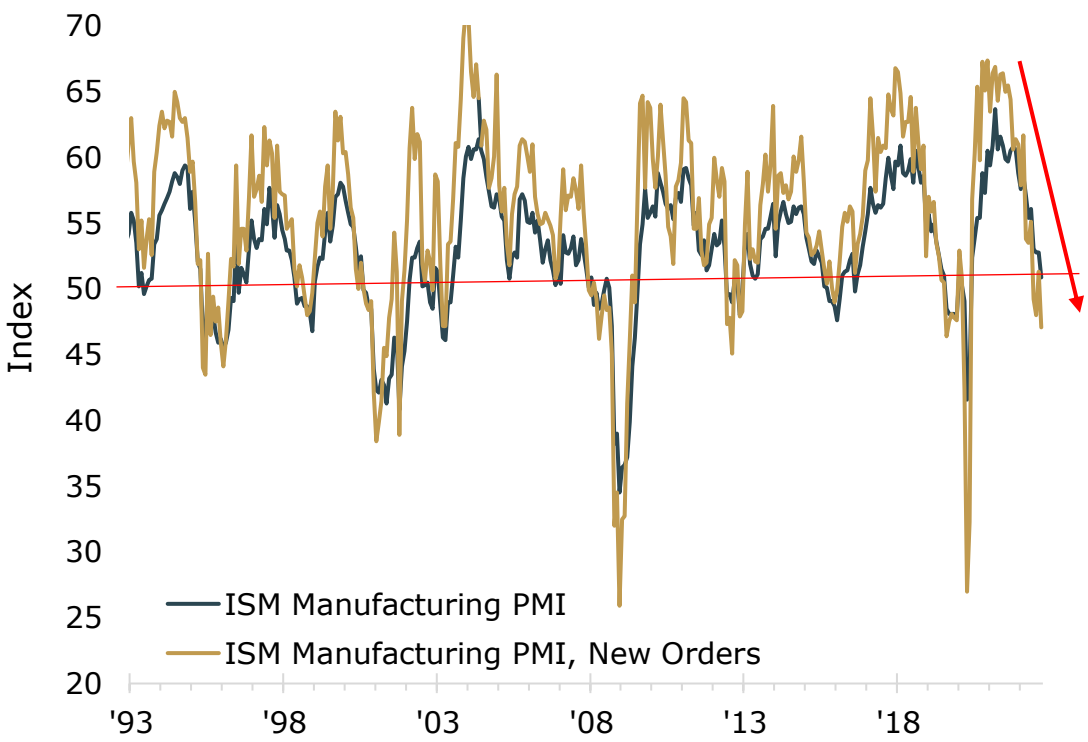


Manufacturing Activity Slowing

Chicago Business Barometer Index



ISM Manufacturing PMI, New Orders

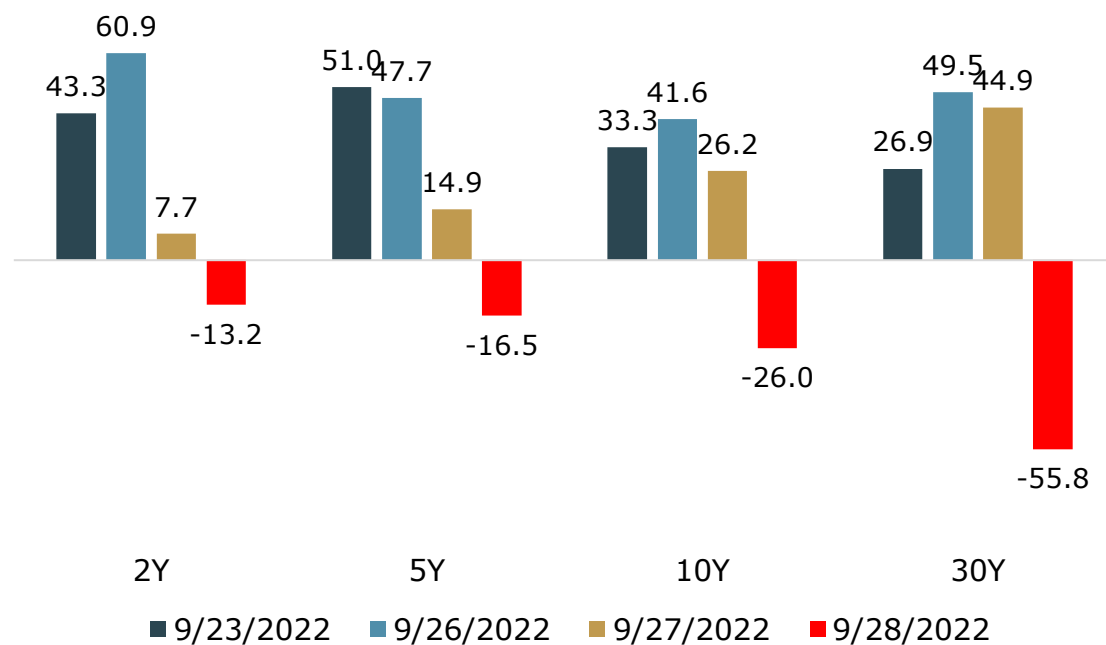


An aerial photograph of a city skyline, likely New York City, featuring a dense cluster of skyscrapers and modern buildings. In the foreground, a river flows through a green park area, with several bridges crossing it. The sky is a clear, deep blue. The text "Financial Stress" is overlaid in the center in a large, white, sans-serif font.

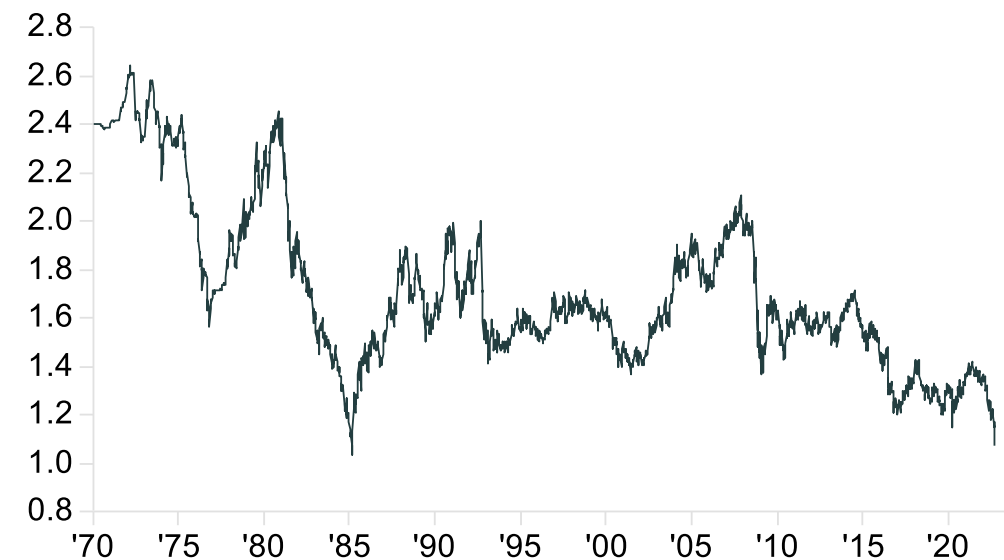
Financial Stress

Major UK Policy Mistake

UK Gilt Yields: Change By Day (bps)

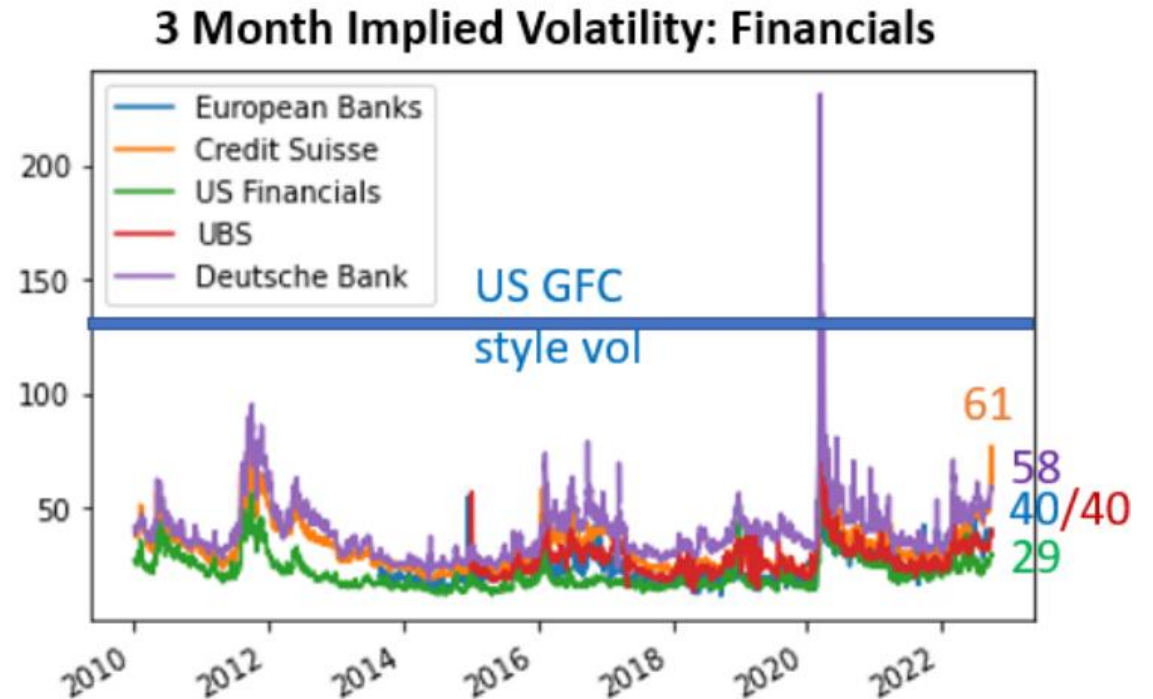


U.S. Dollar per British Pounds- FX Spot Rate



European Banks Under Stress

- Credit Suisse has been garnering speculation that it is under extreme financial duress
- While credit spreads are elevated, they aren't close to those of global financial crisis



The Fed on Watch

Fed is Watching UK and Other Developments:

“We are attentive to financial vulnerabilities that could be exacerbated by the advent of additional adverse shocks. For instance, in countries where **sovereign or corporate debt levels are high**, higher interest rates could increase debt-servicing burdens and concerns about debt sustainability, which could be exacerbated by currency depreciation. An increase in risk premiums could kick off **deleveraging dynamics** as financial intermediaries de-risk. And **shallow liquidity** in some markets could become an amplification channel in the event of further adverse shocks.

But Plan is to Stay on Tightening Course:

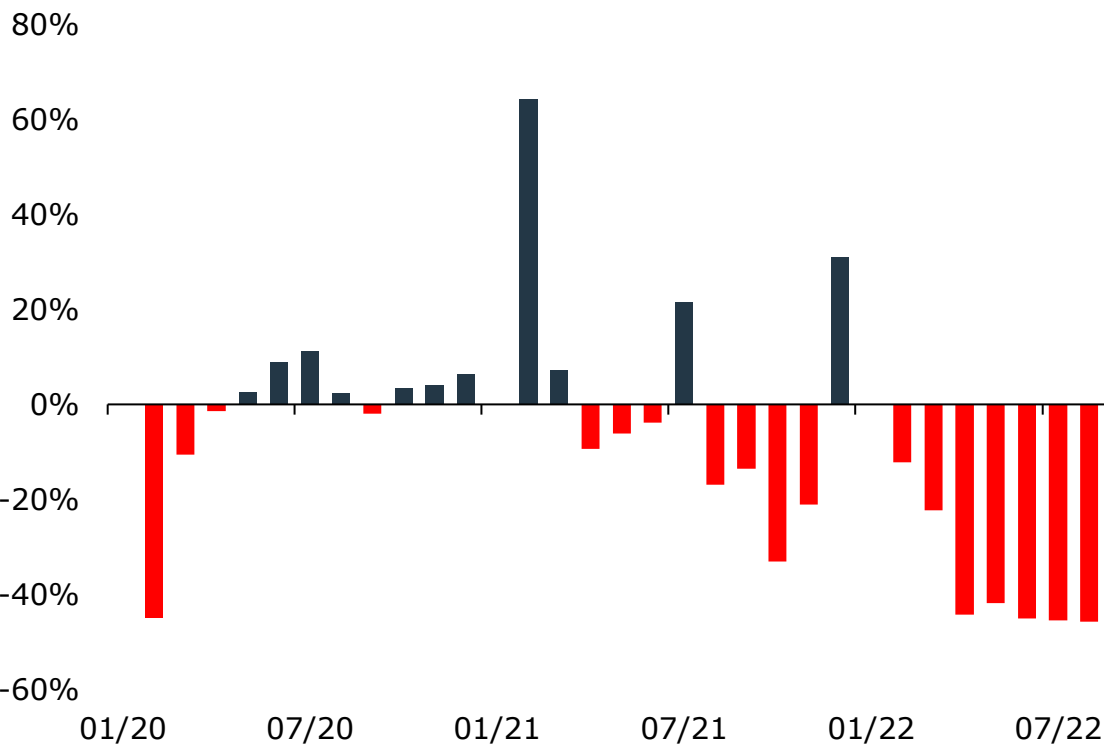
Monetary policy will need to be **restrictive for some time** to have confidence that inflation is moving back to target. For these reasons, we are committed to **avoiding pulling back prematurely**.

An aerial photograph of a city skyline, likely New York City, featuring a dense cluster of skyscrapers and modern buildings. In the foreground, a river flows through a green park area, with several bridges crossing it. The sky is a clear, deep blue.

China

China Real Estate Market Under Stress

Chinese Construction Starts have Fallen More Than 40% Every Month Since April



An aerial photograph of a city skyline, likely Chicago, featuring a river (Chicago River) with several bridges, surrounded by dense greenery and a backdrop of numerous skyscrapers under a clear blue sky. The text "Market Technicals" is overlaid in white, bold, sans-serif font in the center of the image.

Market Technicals

September Seasonality

Money with Murphy 9/14/2022

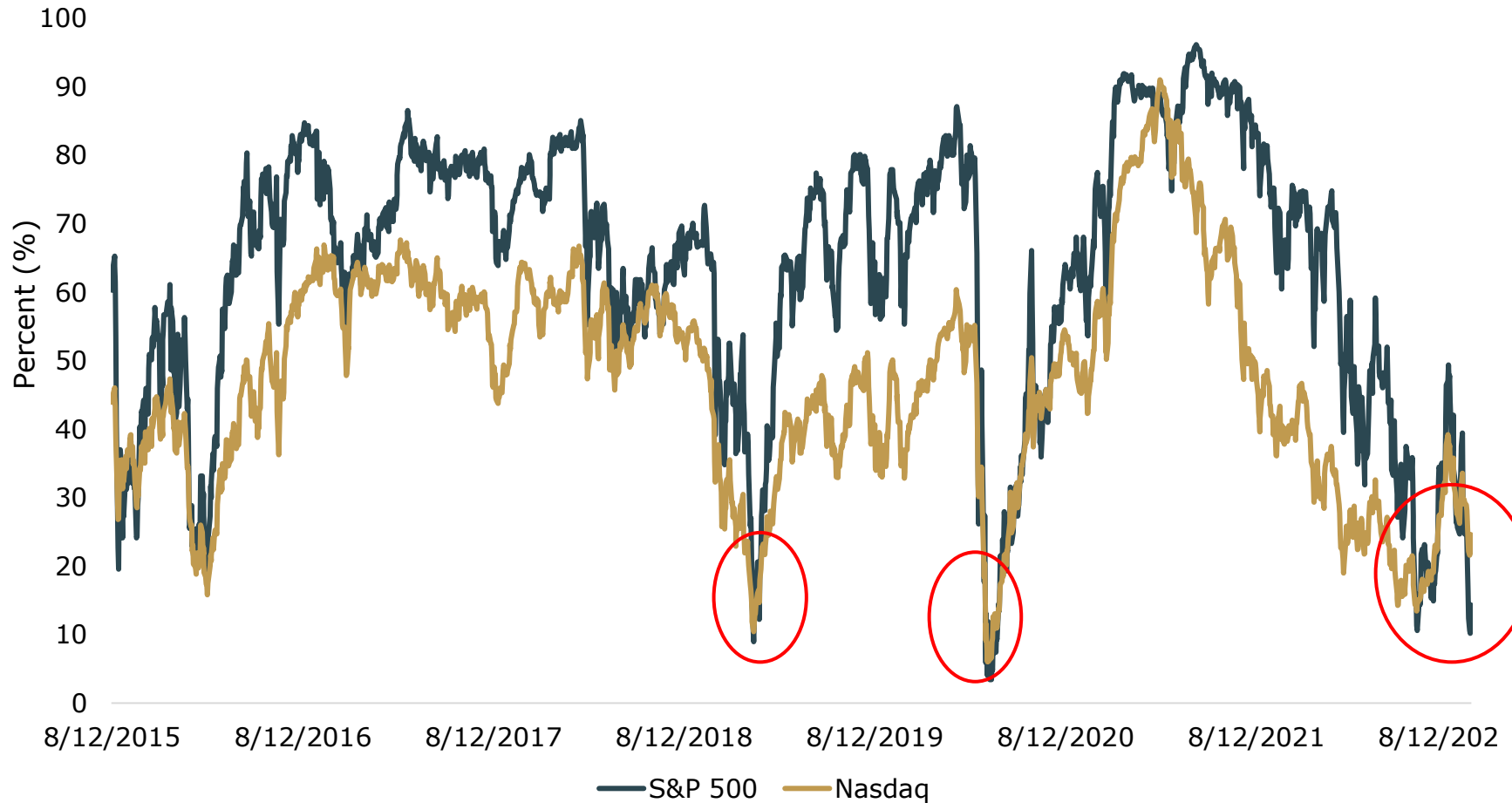


“When we compare stock returns in September versus other months, the time of cool breezes and back to school doesn’t stack up so well. In fact, on average, the S&P 500 has fallen 0.4% in September while the index typically rises in other months. And in periods when the S&P has already been down for the year, such as this year, September’s decline has been even greater.

We can even parse apart average performance during the month which shows that market returns tend to be worse in the second half of September.”

Few Stocks Have Been Spared

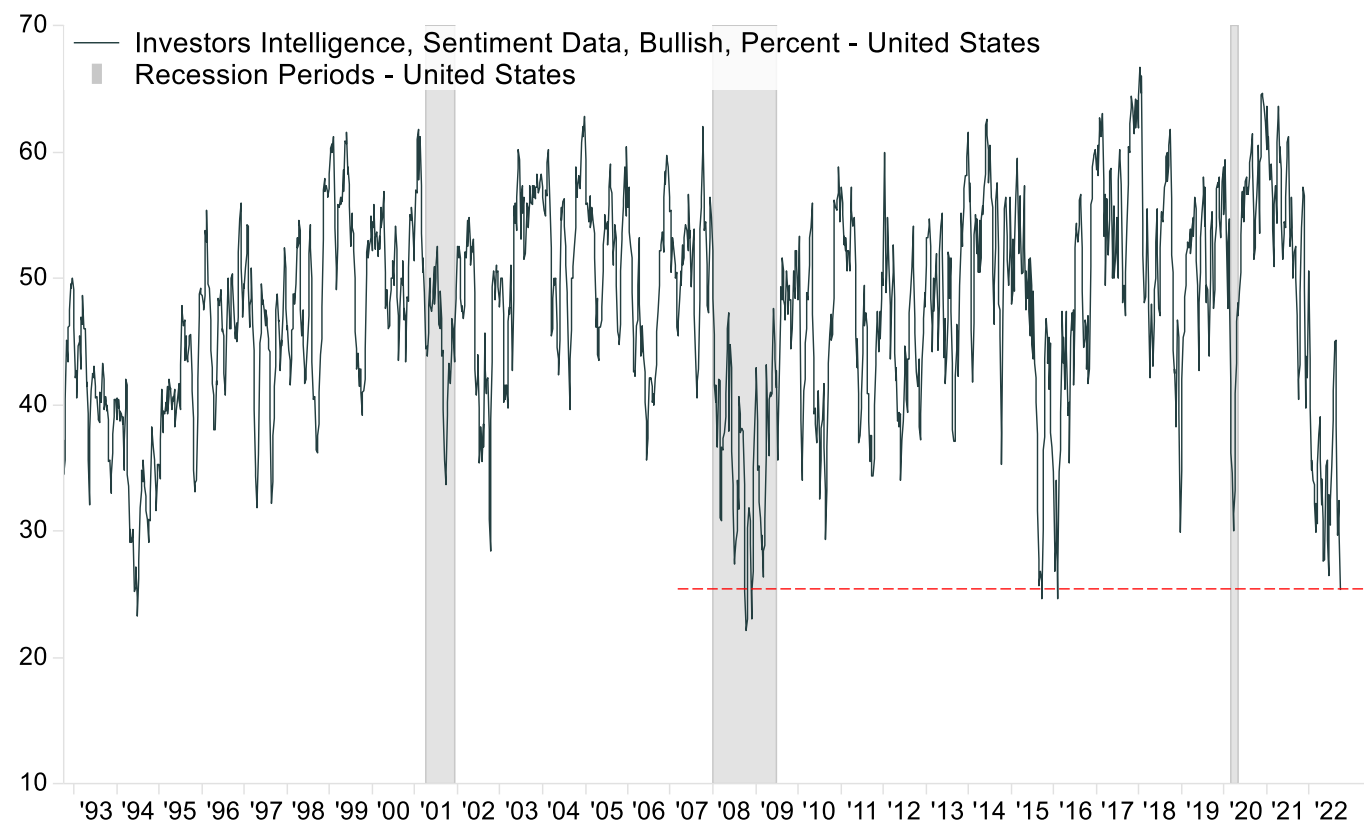
Percentage of Stocks Above their 200-Day Moving Average



- Only about 10% of stocks in the S&P 500 and Nasdaq are above their average price of the last 200 trading days
- The pervasive weakness in stocks has reached a level close to where markets have bottomed previously

Bulls at Lowest Levels in Years

S&P 500 Index, based on Investors Intelligence Bullish % 2002-2022



Seasonals Start Improving

S&P 500 Index Average 3-Month Forward Returns (1928-2022)



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