DayMark WEALTH PARTNERS

DayMark Monthly Market Commentary

October 2022

Where We Are

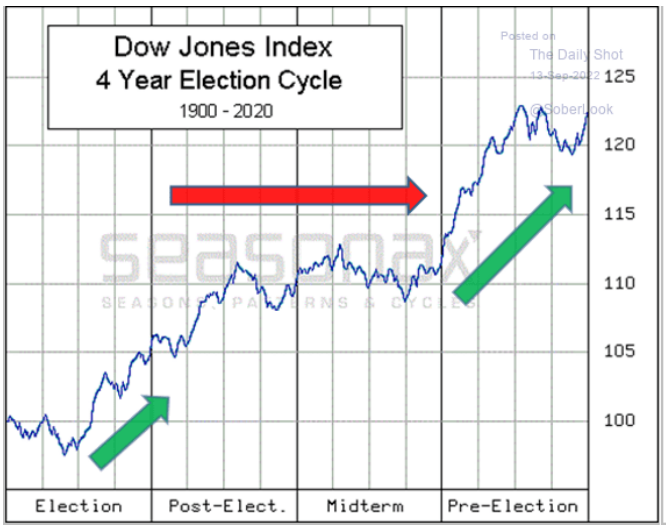
The classic 1908 children's novel *Anne of Green Gables*, by Canadian author Lucy Maud Montgomery (1874-1942), has been translated into at least 36 languages and sold more than 50 million copies. Readers worldwide have been animated and inspired by the deeds and words of the irrepressibly positive 11-year-old orphan Anne Shirley, never more so than when she quintessentially exclaims "I am so glad I live in a world where there are Octobers!" And for all of humanity for all of October, "*Ut ita sit*," which is Latin for "May it be thus."

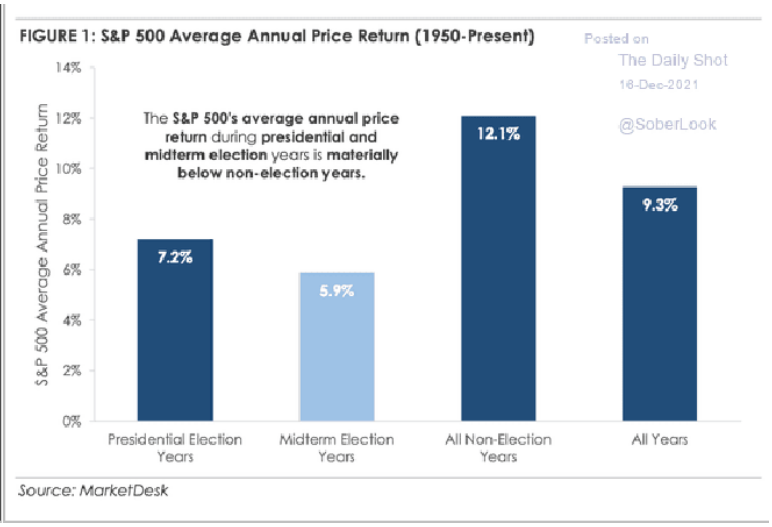
During the weeks following this year's summer solstice (occurring in 2022 on June 21st, at 5:14 AM Eastern Daylight Time), financial market participants began to entertain the notion that the Federal Reserve might be seriously considering a late-2022 or early-2023 rotation (often described as a "pivot") toward reducing or ending its restrictive monetary policy. As a result, from its June 16 closing low of 3666.77, the S&P 500 rallied +16.8% to close at 4283.74 on August 18th.

Yet following: (i) Fed Chairman Jerome Powell's August 26th speech at the Central Bankers Symposium in Jackson Hole, Wyoming, and then (ii) Chair Powell's news conference commentary after the FOMC's September 21 FOMC policy meeting, stock and bond prices have tended to trace a generally declining path as the Fed has: (1) decisively underscored its commitment to restoring price stability; (2) reiterated the fact that a considerable amount of monetary tightening likely remains in the pipeline; and (3) indicated that the interval of elevated policy interest rates could very well pertain for a lengthier-than-anticipated duration, perhaps extending through 2023 or even longer. In response, through Tuesday, September 27, the S&P had declined -6.5% over six consecutive trading sessions — representing the first time the S&P 500 had recorded a decline extending that many days since February 2020, when financial market participants initially began to be unnerved by the beginning of the coronavirus pandemic.

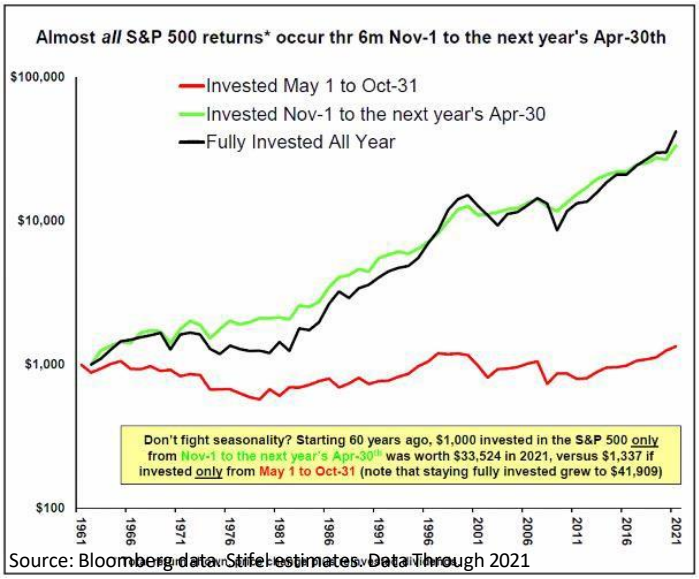
Against a backdrop of tightening monetary policy, heightened geopolitical tensions, weakening economic data (including six consecutive months of contraction for the Leading Economic Indicators index — which has not occurred since the beginning of the Global Financial Crisis 15 years ago), enervated business and consumer confidence, unusual currency movements, a preponderantly risk-off atmosphere over the past three quarters for equities, and U.S. midterm elections on Tuesday, November 8th, investors should prepare for volatility in October and the remaining months of this year.

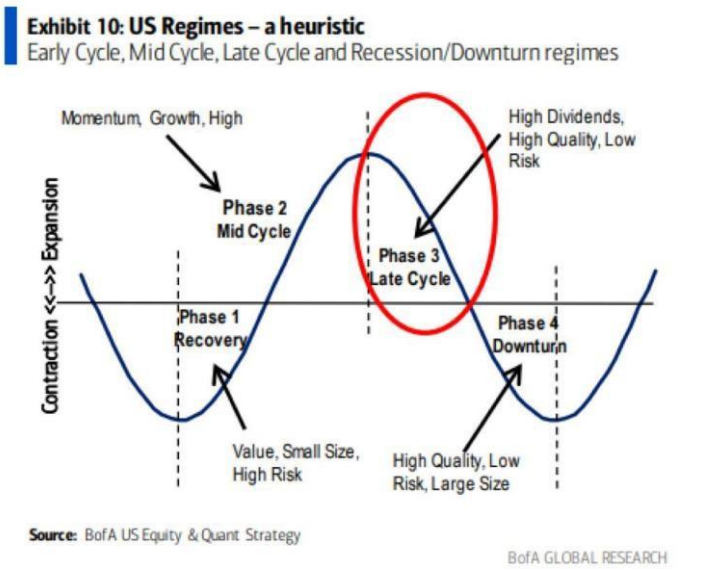
The nearby chart depicts the essentially sideways movement of the Dow Jones Industrial Index in the midterm year of the four-year election cycle in the U.S. over the past 120 years. And covering the past 71 years, from 1950 through late 2021) the adjacent chart shows that the average annual price return of the S&P 500 index during midterm election years (+5.9%) is materially below all non-election years (+12.1%), and even presidential election years (+7.2%).





Emphasizing all of the caveats associated with averages calculated over a 60-year time frame, from a seasonal standpoint, the nearby chart shows that *on average*, almost all of the S&P 500's returns are generated in the six months from November 1st through the following year's April 30th (perhaps one of the ancestral origins of the age-old stock market adage "Sell in May and go away".) From an economic cycle standpoint, the adjacent chart shows that during the Late Cycle and Recession/Downturn phases of an economic regime — which in our opinion characterizes current conditions — portfolio emphasis should be placed on risk management, high-quality securities, and stable income generation.





We recognize that a hawkish Federal Reserve, high rates of inflation, and high interest rates, plus the likelihood of potentially disappointing corporate revenue growth and unfavorable earnings outcomes, may already be well reflected in the year-to-date return through September of -24.8% for the S&P 500. In the post-1970 era, as shown in the nearby chart, when September's S&P 500 price performance has been negative -7.0% or worse, October's price performance has averaged +4.3% (with a median price return of +7.1%) and has been positive 83.3% of the time, with the sole exception of September 2008, when the S&P declined -16.9% during the onset of the 2008-2009 Global Financial Crisis.

Hope In October? Bounces After A Bad September Are Possible

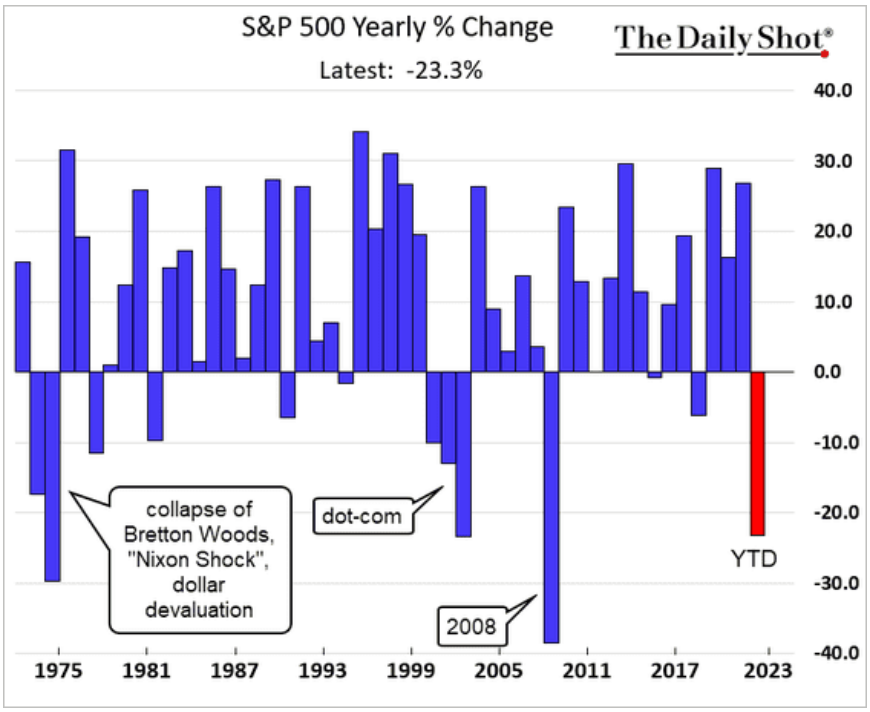
S&P 500 Performance In October After A Bad September (Down 7%)

Year	S&P 500 Returns September	October
1974	(11.9%)	16.3%
1986	(8.5%)	5.5%
2001	(8.2%)	1.8%
2002	(11.0%)	8.6%
2008	(9.1%)	(16.9%)
2011	(7.2%)	10.8%
2022	(8.0%)	?
	Average Return	4.3%
	Median Return	7.1%
	% Positive	83.3%

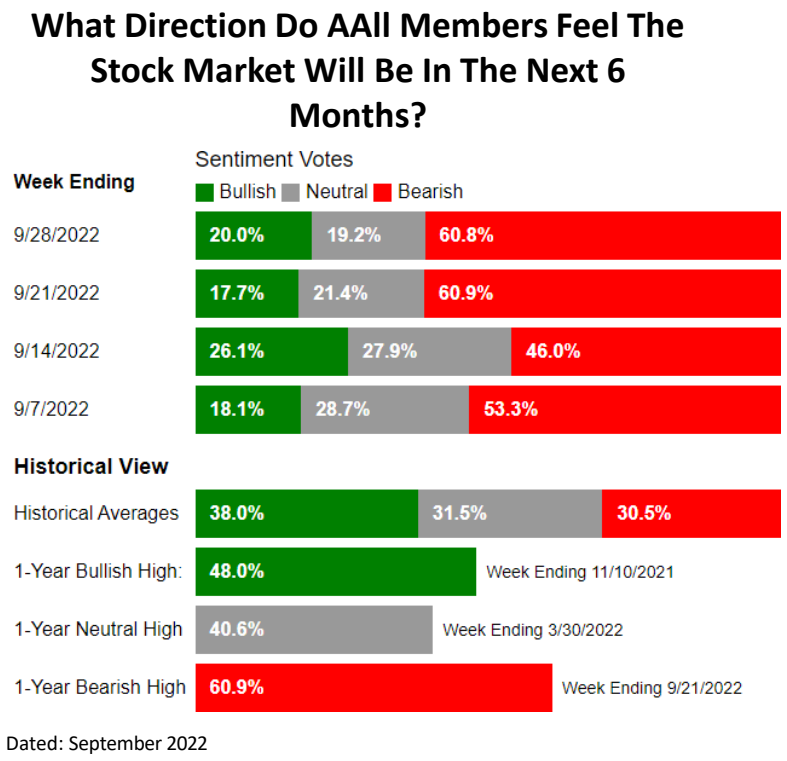
Source: Carson Investment Research, FactSet 9/29/22
@ryandetrick

CARSON

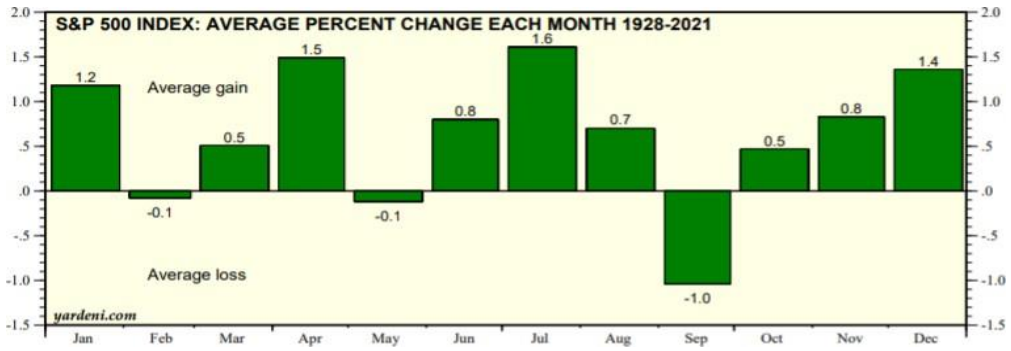
With the 2022 year-to-date drawdown of -23.3% through September 26th (as shown in the nearby chart) ranking among the S&P 500 price declines of 1974 (-29.7%), 2002 (-23.4%), and 2008 (-38.5%), we hasten to point out that: (i) corporate balance sheets and the capital position of America's commercial banking industry appear to be in decent shape; (ii) aggregate household savings levels, liquidity, and money market balances — although drawn down somewhat from peak levels — remain substantial; and (iii) a significant degree of pessimism and variation already prevails (often a short-term contrarian indicator, and thus moderately bullish), as reflected in the nearby charts showing (1) the quite elevated percentage bearish readings in the weekly American Association of Individual Investors Survey (the first time on record that the AAII Bearish Sentiment reading has exceeded 60% for two weeks in a row), and (2) the extreme bearishness of the Bank of America Bull and Bear Indicator, reflecting "investor sentiment unquestionably worse since the Global Financial Crisis of 2008-2009."



Dated: September 2022



As investors enter the tenth month of 2022, it can be seen in the nearby chart that *on average* over the 94 years from 1928 through 2021 inclusive, the month of October – with its historical +0.5% price gain for the S&P 500 – ranks tied for eighth among months in more than nine decades of monthly performance ranking. It is worth repeating that these nine-decade results are *averages*, with a given month's outcome having the potential to vary above or below the long-term average. According to *Investors Business Daily*, October has generated an average +2.7% price increase in midterm election years.



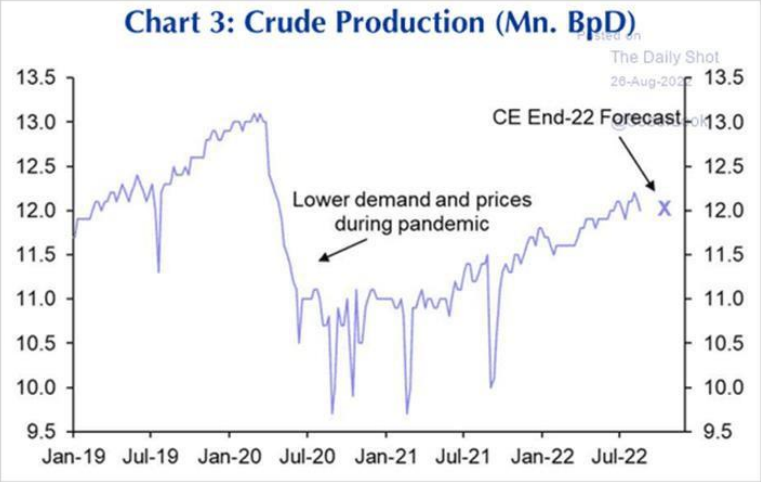
Source: Standard & Poor's and Haver Analytics. Data Through end of August 2022

And as highlighted in the nearby price performance table, after falling -4.8%, -4.7%, and -2.9%, respectively, in the last three weeks of September, the S&P 500 declined -9.3% (closing at 3585.62 on September 30th versus 4955.00 on August 31st). The technology-heavy Nasdaq Composite fell -10.5% in September, closing at 10575.62, and the Russell 2000 index of small- and mid-cap companies declined -9.7% over the month, to close at 1664.72.

Monthly and Year-to-Date Price Performance													
Index/Commodity	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**Jun.**	**Jul.**	**Aug.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**	**YTD (through 09/30)**
S&P 500	-5.3%	-3.1%	+3.6%	-8.8%	0.0%	-8.4%	+9.1%	-4.2%	-9.3%				-24.8%
Nasdaq Composite	-9.0%	-3.4%	+3.4%	-13.3%	-2.1%	-8.7%	+12.4%	-4.6%	-10.5%				-32.4%
Russell 2000	-9.7%	+1.0%	+1.1%	-10.0%	0.0%	-8.4%	+10.4%	-2.2%	-9.7%				-25.9%
Gold	-1.8%	+5.8%	+2.6%	-2.0%	-3.5%	-2.1%	-2.1%	-3.2%	-2.8%				-9.2%
West Texas Intermed. Oil	+16.8%	+8.6%	+4.8%	+4.4%	+9.5%	-7.8%	-6.8%	-9.2%	-11.2%				+5.7%

Source: The Wall Street Journal, and Yahoo Fina nce. September 30, 2022.

Over the course of September, West Texas Intermediate crude oil prices declined -11.2%, from $89.55 per barrel on August 31st to $79.49 per barrel on September 30th. The global oil *demand* side continues to reflect signs of China's Covid-19 lockdown measures; slowing momentum in the global economy; fuel shortages; currently low levels of inventories; and precautionary buying, while on the *supply* side: (i) the seven-month Russia-Ukraine conflict continues to create significant demand and supply disruptions; (ii) several nations, especially the U.S. and including certain allies, have launched the release of crude oil from their respective Strategic Petroleum Reserves; (iii) Iran continues with the nuclear talks begun on November 29th, which could in theory increase the supply of Iranian oil officially entering global oil markets if economic sanctions on Iran are relaxed; (iv) facing pressure from investors to moderate growth and address their emissions amid concerns about increasing regulations and climate change, large U.S. and European oil companies have continued to spend sparingly to boost production, even as certain major oil companies have halted and/or completely exited their Russian activity; (v) consolidating U.S. shale producers have exercised financial probity; have not excessively increased output; have followed production discipline and exerted capital spending restraint; and (vi) at the 32nd OPEC+ Ministerial Meeting on Monday, September 5th, the organization (which includes Saudi Arabia, Russia, the United Arab Emirates, Kuwait, Iraq, and other countries) decided to cut production targets by 100,000 barrels per day for October, and scheduled its 33rd meeting (in Vienna on Wednesday, October 5th, the first in-person meeting since the Covid-19 pandemic began in 2020).



During September, the U.S. dollar rose +3.1% versus the DXY index, comprised of six major currencies (the Euro, Japanese yen, British pound, Canadian dollar, Swiss franc, and Swedish krona). On September 30th, the DXY index closed at 112.12, +16.8% versus its level of 95.97 on December 31st, 2021.

Reflecting a significant degree of competition from higher short-term interest rates and a stronger U.S. dollar over the course of the past month, the daily spot gold price (as logged by USA Gold) closed at $1,660.60 per troy ounce on September 30th, down -2.8% during September and down -9.2% from its close of $1,829.05 per troy ounce on December 31, 2021.

In the accompanying table, September month-end closing yield levels are shown for 2-year, 10-year, and 30-year U.S. Treasury securities, and these monthly data are used to compute the year-to-date 2022 yield level changes (expressed in basis points), also highlighted nearby.

2022 Month-End Treasury Securities Closing Yield Levels												
Security	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**Jun.**	**Jul.**	**Aug.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**
2-Year	1.18%	1.44%	2.28%	2.70%	2.53%	2.92%	2.89%	3.45%	4.22%			
10-Year	1.79%	1.83%	2.32%	2.89%	2.85%	2.98%	2.67%	3.15%	3.83%			
30-Year	2.11%	2.17%	2.44%	2.96%	3.07%	3.14%	3.00%	3.27%	3.79%			
Source: The Wall Street Journa l, and Yahoo Financ e. September 30, 2 022												

Month-to-Month 2022 Yield Level Changes (in Basis Points)												
Security	**Jan.**	**Feb.**	**Mar.**	**Apr.**	**May**	**Jun.**	**Jul.**	**Aug.**	**Sep.**	**Oct.**	**Nov.**	**Dec.**
2-Year	+45	+26	+84	+42	-17	+39	-3	+56	+77			
10-Year	+27	+4	+49	+57	-4	+13	-31	+48	+68			
30-Year	+21	+6	+27	+52	+11	+7	-14	+27	+52			
Source: The Wall Street Journa l, and Yahoo Financ e. September 30, 2 022												

For 2-year U.S. Treasury securities, yields rose 77 basis points in September to 4.22% at month-end, where they are up 349 basis points (3.49%) since their closing level of 0.73% on December 31st, 2021.

For 10-year U.S. Treasury securities, yields climbed 68 basis points in September and closed at 3.83% at the end of the month, where they are up 204 basis points (2.04%) since their closing level of 1.52% on December 31st, 2021.

For 30-year U.S. Treasury securities, yields increased 52 basis points in September and reached 3.79% at the end of the month, where they are up 189 basis points (1.89%) since their closing level of 1.90% on December 31st, 2021.

The Way Ahead

The following discussion reviews several of the key factors that we consider at this time to be likely to exert meaningful influence on financial asset prices in the interval ahead.

Slowing Economic Growth: Representing the governments of 37 market-based countries which collaborate to promote sustainable economic growth, the Organization for Economic Cooperation and Development (OECD) on September 26th published its latest Interim Economic Outlook, containing analysis and projections for the world economy and all G20 countries. The nearby chart displays the OECD's updated GDP growth projections for 2022 and 2023. It can be seen that global real GDP growth is projected by the OECD to slow from +3.0% in 2022 to +2.2% in 2023, well below the pace which had been projected prior to Russia's February 24th invasion of Ukraine. For the United States, which experienced +5.7% real GDP growth in 2021, annual real GDP growth is projected by the OECD to slow sharply, to +1.5% in 2022 and + 0.5% in 2023. For the 19-country Euro Area, real GDP growth is projected by the OECD to decline from +3.1% in 2022 to +0.3% in 2023 (with risks of actual GDP declines in several European economies during the winter months). Amidst Covid-19 shutdowns and property market weakness, real GDP in China is projected by the OECD to advance by +3.2% in 2022, with policy support currently projected to help achieve +4.7% GDP growth in 2023.

Table 1. **OECD Interim Economic Outlook GDP projections September 2022**

Real GDP growth, year-on-year, per cent

	2021	2022		2023	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
World	5.8	3.0	0.0	2.2	-0.6
G20[1]	6.2	2.8	-0.1	2.2	-0.6
Australia	4.9	4.1	-0.1	2.0	-0.5
Canada	4.5	3.4	-0.4	1.5	-1.1
Euro area	5.2	3.1	0.5	0.3	-1.3
Germany	2.6	1.2	-0.7	-0.7	-2.4
France	6.8	2.6	0.2	0.6	-0.8
Italy	6.6	3.4	0.9	0.4	-0.8
Spain[2]	5.5	4.4	0.3	1.5	-0.7
Japan	1.7	1.6	-0.1	1.4	-0.4
Korea	4.1	2.8	0.1	2.2	-0.3
Mexico	4.8	2.1	0.2	1.5	-0.6
Türkiye	11.0	5.4	1.7	3.0	0.0
United Kingdom	7.4	3.4	-0.2	0.0	0.0
United States	5.7	1.5	-1.0	0.5	-0.7
Argentina	10.4	3.6	0.0	0.4	-1.5
Brazil	4.9	2.5	1.9	0.8	-0.4
China	8.1	3.2	-1.2	4.7	-0.2
India[3]	8.7	6.9	0.0	5.7	-0.5
Indonesia	3.7	5.0	0.3	4.8	0.1
Russia	4.7	-5.5	4.5	-4.5	-0.4
Saudi Arabia	3.4	9.9	2.1	6.0	-3.0
South Africa	4.9	1.7	-0.1	1.1	-0.2

Note: Difference from June 2022 Economic Outlook in percentage points, based on rounded figures. World and G20 aggregates use moving nominal GDP weights at purchasing power parities. Based on information available up to September 22, 2022.

1. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.

2. Spain is a permanent invitee to the G20.

3. Fiscal years, starting in April.

Source: Interim Economic Outlook 112 database; and Economic Outlook 111 database.

The OECD's Interim Economic Outlook also forecasts headline and core (ex food and energy) inflation projections for the G20 countries. The nearby chart displays the OECD's updated headline inflation projections for 2022 and 2023.

It can be seen that inflation has become broad-based in numerous economies, with easing supply bottlenecks and tighter monetary policy projected to moderate inflation pressures in 2023 even as elevated shelter prices and higher labor costs appear likely to impede the pace of decline. Most major economies are likely to pursue further monetary policy tightening through interest rate increases and other measures in order to anchor inflation expectations and establish that inflation pressures are durably reduced. For the United States, headline inflation is projected by the OECD to be +6.2% for 2022 before declining to +3.4% in 2023. For the Euro Area, headline inflation is projected by the OECD to reach +8.1% in 2022 and ease off somewhat to +6.2% in 2023. For China, inflation is projected by the OECD to rise from +2.2% in 2022 to +3.1% in 2023.

Table 2. **OECD Interim Economic Outlook headline inflation projections September 2022**

Headline inflation, per cent

	2021	2022		2023	
		Interim EO projections	Difference from June EO	Interim EO projections	Difference from June EO
G20[1]	3.8	8.2	0.6	6.6	0.3
Australia	2.8	6.1	0.9	4.4	0.3
Canada	3.4	6.9	0.9	4.5	0.6
Euro area	2.6	8.1	1.1	6.2	1.6
Germany	3.2	8.4	1.2	7.5	2.8
France	2.1	5.9	0.7	5.8	1.3
Italy	1.9	7.8	1.5	4.7	0.9
Spain[2]	3.0	9.1	1.0	5.0	0.2
Japan	-0.2	2.2	0.3	2.0	0.1
Korea	2.5	5.2	0.4	3.9	0.1
Mexico	5.7	7.9	1.0	4.9	0.5
Türkiye	19.6	71.0	-1.0	40.8	1.9
United Kingdom	2.6	8.8	0.0	5.9	-1.5
United States	3.9	6.2	0.3	3.4	-0.1
Argentina	50.9	92.0	31.9	83.0	32.4
Brazil	8.3	10.8	1.1	6.6	1.3
China	0.8	2.2	0.2	3.1	0.1
India[3]	5.5	6.7	0.0	5.9	-0.6
Indonesia	1.6	4.1	0.3	3.9	0.1
Russia	6.7	13.9	-2.3	6.8	-6.5
Saudi Arabia	3.1	2.5	0.3	3.2	0.5
South Africa	4.6	6.7	0.7	5.9	0.1

Note: Difference from June 2022 Economic Outlook in percentage points, based on rounded figures. G20 aggregate uses moving nominal GDP weights at purchasing power parities. Based on information available up to September 22, 2022.

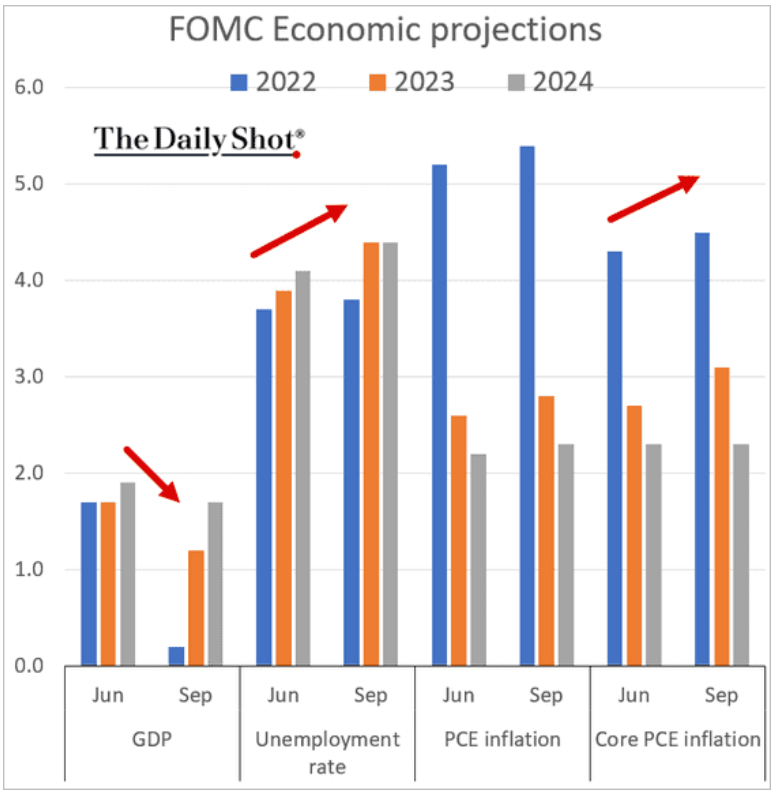
1. The European Union is a full member of the G20, but the G20 aggregate only includes countries that are also members in their own right.

2. Spain is a permanent invitee to the G20.

3. Fiscal years, starting in April.

Source: Interim Economic Outlook 112 database; and Economic Outlook 111 database.

Additional perspective on the outlook for U.S. real GDP growth, employment levels, and inflation for each year from 2022 to 2024 — and over the longer run — is contained in the quarterly Summary of Economic Projections (SEP) released in conjunction with the Federal Open Market Committee meeting held on September 20-21. The nearby bar chart and the accompanying table set forth the economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy. The term "FOMC participants" encompasses the members of the Board of Governors and all presidents of the 12 Regional Federal Reserve Banks. The term "FOMC members" includes the voting members of the FOMC — namely, the members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and 4 of the remaining 11 Reserve Bank presidents who serve one-year terms on a rotating basis.



Dated: September 2022

Table 1. Economic projections of Federal Reserve Board members and Federal Reserve Bank presidents, under their individual assumptions of projected appropriate monetary policy, September 2022

Percent

	Median[1]					Central Tendency[2]					Range[3]				
Variable*	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run	2022	2023	2024	2025	Longer run
Change in real GDP	0.2	1.2	1.7	1.8	1.8	0.1–0.3	0.5–1.5	1.4–2.0	1.6–2.0	1.7–2.0	0.0–0.5	-0.3–1.9	1.0–2.6	1.4–2.4	1.6–2.2
June projection	1.7	1.7	1.9		1.8	1.5–1.9	1.3–2.0	1.5–2.0		1.8–2.0	1.0–2.0	0.8–2.5	1.0–2.2		1.6–2.2
Unemployment rate	3.8	4.4	4.4	4.3	4.0	3.8–3.9	4.1–4.5	4.0–4.6	4.0–4.5	3.8–4.3	3.7–4.0	3.7–5.0	3.7–4.7	3.7–4.6	3.5–4.5
June projection	3.7	3.9	4.1		4.0	3.6–3.8	3.8–4.1	3.9–4.1		3.5–4.2	3.2–4.0	3.2–4.5	3.2–4.3		3.5–4.3
PCE inflation	5.4	2.8	2.3	2.0	2.0	5.3–5.7	2.6–3.5	2.1–2.6	2.0–2.2	2.0	5.0–6.2	2.4–4.1	2.0–3.0	2.0–2.5	2.0
June projection	5.2	2.6	2.2		2.0	5.0–5.3	2.4–3.0	2.0–2.5		2.0	4.8–6.2	2.3–4.0	2.0–3.0		2.0
Core PCE inflation[4]	4.5	3.1	2.3	2.1		4.4–4.6	3.0–3.4	2.2–2.5	2.0–2.2		4.3–4.8	2.8–3.5	2.0–2.8	2.0–2.5	
June projection	4.3	2.7	2.3			4.2–4.5	2.5–3.2	2.1–2.5			4.1–5.0	2.5–3.5	2.0–2.8		
Memo: Projected appropriate policy path															
Federal funds rate	4.4	4.6	3.9	2.9	2.5	4.1–4.4	4.4–4.9	3.4–4.4	2.4–3.4	2.3–2.5	3.9–4.6	3.9–4.9	2.6–4.6	2.4–4.6	2.3–3.0
June projection	3.4	3.8	3.4		2.5	3.1–3.6	3.6–4.1	2.9–3.6		2.3–2.5	3.1–3.9	2.9–4.4	2.1–4.1		2.0–3.0

It can be seen in the chart and in the table that FOMC participants' median projections of U.S. real GDP growth is +0.2% for 2022, +1.2% for 2023, and +1.7% in 2024; the average civilian unemployment rate in 4Q2022 is estimated to be 3.8%, in 4Q2023 4.4%, and in 4Q2024, 4.4%; Headline Personal Consumption Expenditures (PCE) inflation is estimated to be +5.4% in 2022, +2.8% in 2023, and +2.3% in 2024; and Core (ex food and energy) PCE inflation is estimated to be +4.5% in 2022, +3.1% in 2023, and +2.3% in 2024. Given these assumptions and projections, *FOMC participants' policy interest rate projections* represent the value of the midpoint of the projected appropriate target range for the fed funds rate at the end of the specified calendar year — 4.4% at year-end 2022, 4.6% at year-end 2023, and 3.9% at year-end 2024.

With consumer and corporate demand experiencing *downward momentum* and profit margins being squeezed by *upward pressure* on labor, interest, and selected input costs, according to the FactSet Earnings Insight report of September 30th, for 3Q22, S&P 500 companies are expected to report earnings growth of +2.9% (which would represent the lowest growth rate since the -5.7% earnings decline experienced in 3Q2020) and revenue growth of +8.7%. For 4Q22, analysts are projecting earnings growth of +4.0% and revenue growth of +6.2%. For the full year 2022, analysts are projecting earnings growth of +7.4% and revenue growth of +10.7%. For 1Q23, analysts are projecting earnings growth of +6.5% and revenue growth of +5.9%. For 2Q23, analysts are projecting earnings growth of +5.5% and revenue growth of +3.9%.

For calendar year 2023, analysts are projecting earnings growth of +7.9% and revenue growth of +4.4%. These FactSet projections are essentially corroborated by the nearby chart, showing the Yardeni Research and Analysts' Consensus 2009-2017 year-by-year (and over the 2018-2022 time frame, quarter-by-quarter) earnings and forecasts for the S&P 500 companies. In our estimation, incorporating our assessment of recession-risk odds at 20%-30% for 2022 and 60%-70% for 2023, S&P 500 profitability is likely to be buffeted by the twin forces of weakening demand and rising input costs (including interest costs). Barring exogenous shocks, aggregate 2023 S&P 500 earnings appear likely at this point to end up calendar 2023 somewhere in the range of $215-$230.

Table 1: S&P 500 Earnings YRI vs. Consensus Forecasts (9/26/2022)

	Yardeni Research		Analysts' Consensus	
	Level	YOY %	Level	YOY %
2009	**60.80**	**-7.3**	**60.80**	**-7.3**
2010	**85.32**	**40.3**	**85.32**	**40.3**
2011	**97.82**	**14.7**	**97.82**	**14.7**
2012	**103.80**	**6.1**	**103.80**	**6.1**
2013	**109.68**	**5.7**	**109.68**	**5.7**
2014	**117.86**	**7.5**	**117.86**	**7.5**
2015	**117.46**	**-0.3**	**117.46**	**-0.3**
2016	**118.04 a**	**0.5**	**118.04 a**	**0.5**
2017	**131.98 a**	**11.8**	**131.98 a**	**11.8**
2018	**161.93 a**	**22.7**	**161.93 a**	**22.7**
Q1	38.07 a	23.2	38.07 a	23.2
Q2	41.00 a	25.8	41.00 a	25.8
Q3	42.66 a	27.5	42.66 a	27.5
Q4	41.18 a	14.3	41.18 a	14.3
2019	**162.97 a**	**0.6**	**162.97 a**	**0.6**
Q1	39.15 a	2.8	39.15 a	2.8
Q2	41.31 a	0.8	41.31 a	0.8
Q3	42.14 a	-1.2	42.14 a	-1.2
Q4	42.00 a	2.0	41.99 a	2.0
2020	**139.76 a**	**-14.2**	**139.76 a**	**-14.2**
Q1	33.13 a	-15.4	33.13 a	-15.4
Q2	27.98 a	-32.3	27.98 a	-32.3
Q3	38.69 a	-8.2	38.69 a	-8.2
Q4	42.60 a	1.4	42.60 a	1.5
2021	**208.53 a**	**49.2**	**208.53 a**	**49.2**
Q1	49.13 a	48.3	49.13 a	48.3
Q2	52.75 a	88.5	52.75 a	88.5
Q3	53.89 a	39.3	53.89 a	39.3
Q4	54.05 a	26.9	54.05 a	26.9
2022	**215.00 e**	**3.1**	**223.83 e**	**7.3**
Q1	54.83 a	11.6	54.83 a	11.6
Q2	57.95 a	9.9	57.95 a	9.9
Q3	51.00 e	-5.4	55.66 e	3.3
Q4	52.00 e	-3.8	57.99 e	7.3
2023	**235.00 e**	**9.3**	**242.22 e**	**8.2**

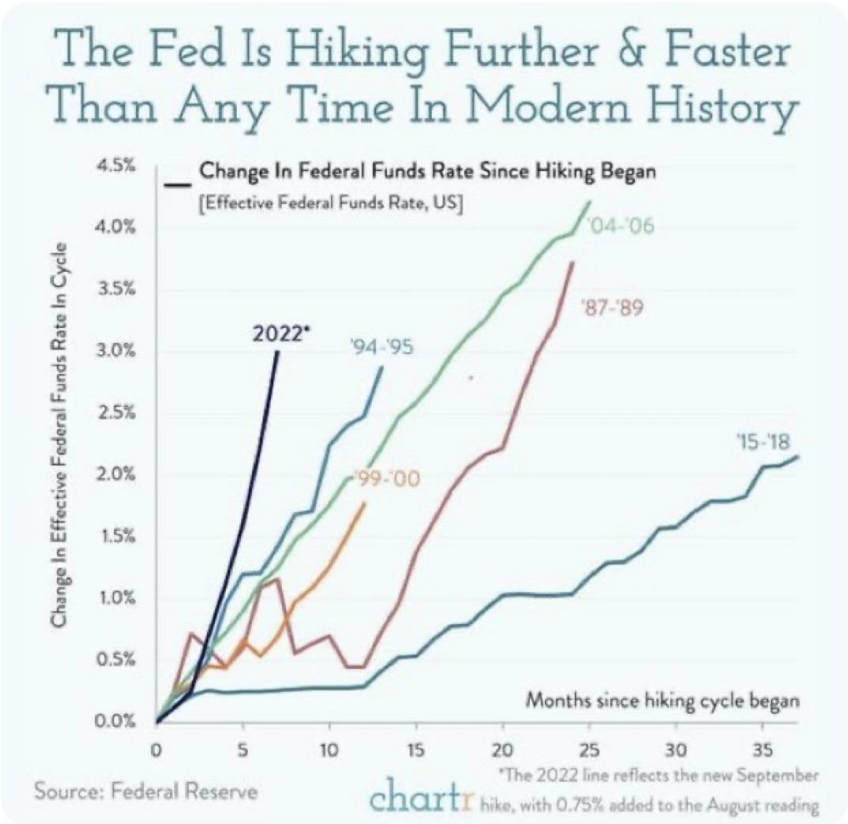
e=estimate.
* Historical earnings growth rates and earnings are not adjusted for accounting and index composition changes.
Source: Yardeni Research, Inc. and I/B/E/S data by Refinitiv.

Among the significant determinants of whether these earnings estimates can be achieved — or whether they will be subject to further meaningful downward revisions — are those set forth in the discussion below.

Decelerating U.S. Corporate Profit Growth: In real terms after inflation, U.S. GDP decreased at an annual rate of -1.6% in 1Q22 and -0.6% in 2Q22, with the GDPNow forecasting model of the Federal Reserve Bank of Atlanta projecting (as of Monday, October 3rd) an annual rate of growth of +2.3% for 3Q22. Anemic revenue and output growth tend to exert downward pressure on corporate profit margins and aggregate earnings.

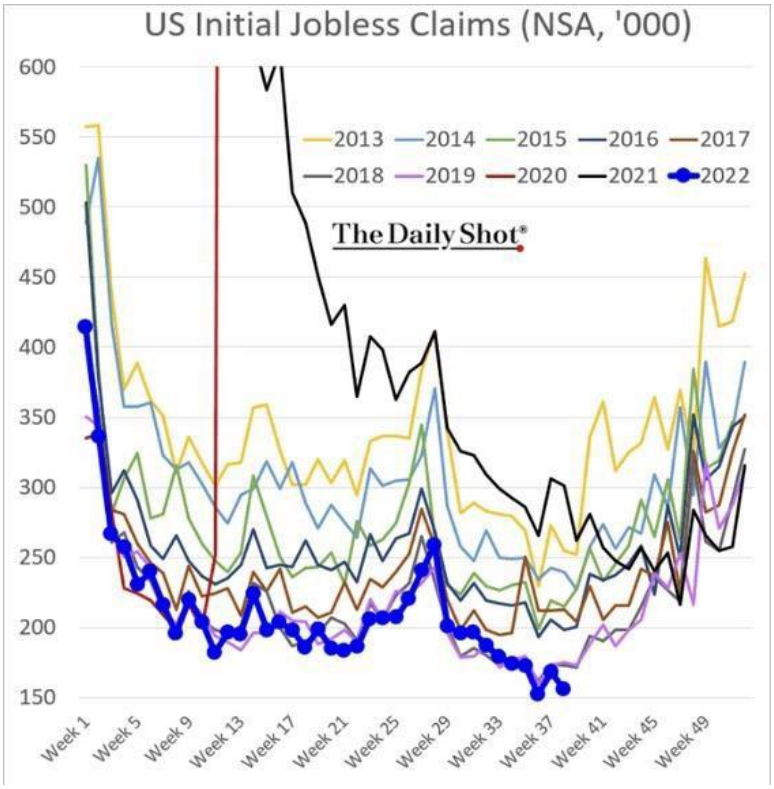
Vitiated Overseas Earnings Generation: Foreign earnings represent an important component of the profits of the U.S. multinational companies which populate the S&P 500 index. These earnings are projected to be subpar, due not only to: (i) the lackluster prevailing economic and business conditions in Europe, Asia, and numerous other overseas economies (as highlighted above in the OECD Interim Economic Outlook discussion); but also owing to (ii) the strong U.S. dollar, which hinders U.S. companies' exports and exerts downward pressure on the repatriated dollar value of earnings generated in countries whose foreign exchange values have depreciated meaningfully versus the U.S. currency.

Higher Interest Costs for Households and the Corporate Sector: As shown in the nearby chart, the FOMC has been hiking rates further and faster than any time in modern history, raising borrowing costs for consumers and businesses.



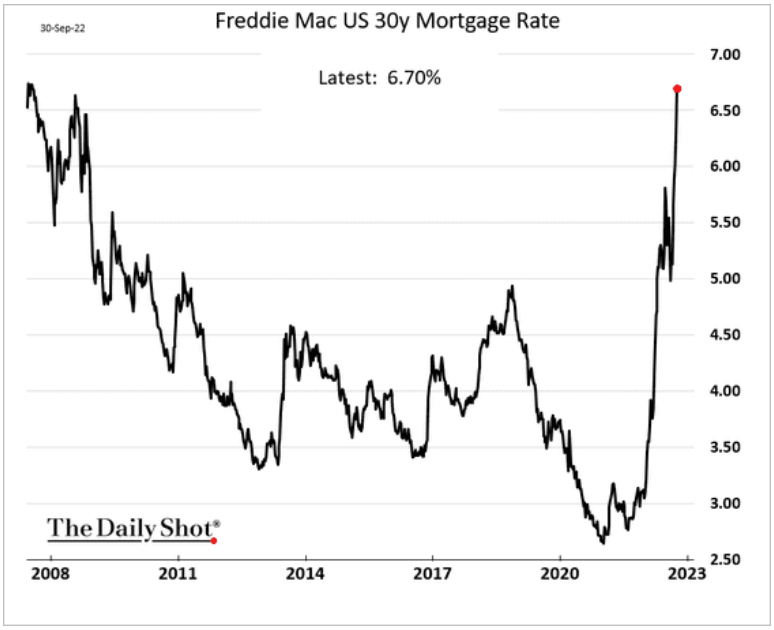
Dated: September 2022

Labor Market Tightness: Upward pressure on labor costs has been a persistent characteristic of this year — represented by the weekly lows in initial jobless claims for unemployment insurance, as shown in the nearby chart — with a lack of available labor and unbalanced labor market conditions reflecting robust economic conditions, keeping pressure on inflation-fighting actions by the Fed while at the same time exerting downward pressure on corporate profit margins.



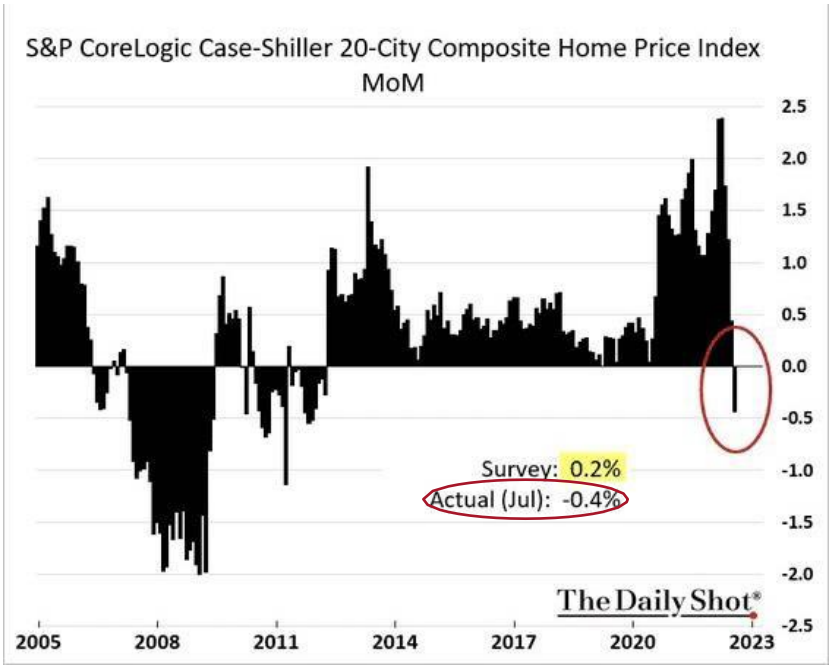
Household Wealth Drawdowns: Perceived and actual declines in the aggregate net worth of the household sector can lead to weakening effects on consumer psychology and spending. Some meaningful portion of the decelerating hit to personal consumption derives from the first six months of 2022's -$13 trillion retreat in equities market capitalization as well as a -$3 trillion decline in the market value of U.S. high-grade bonds.

Housing Sector Fragility: Hindering the economic contribution of the housing sector have been: (i) sharply escalating mortgage financing costs (a depicted in the nearby chart); (ii) constrained demand; and (3) increased supply. Housing represents a key driver of investment, employment, and consumption (especially of appliances and home furnishings), and according to *Barron's*, economic theory holds that a -$1.00 decline in housing values translates to a $0.40 reduction in spending (almost 4 times the effect of a $1.00 dollar decline in equity prices).

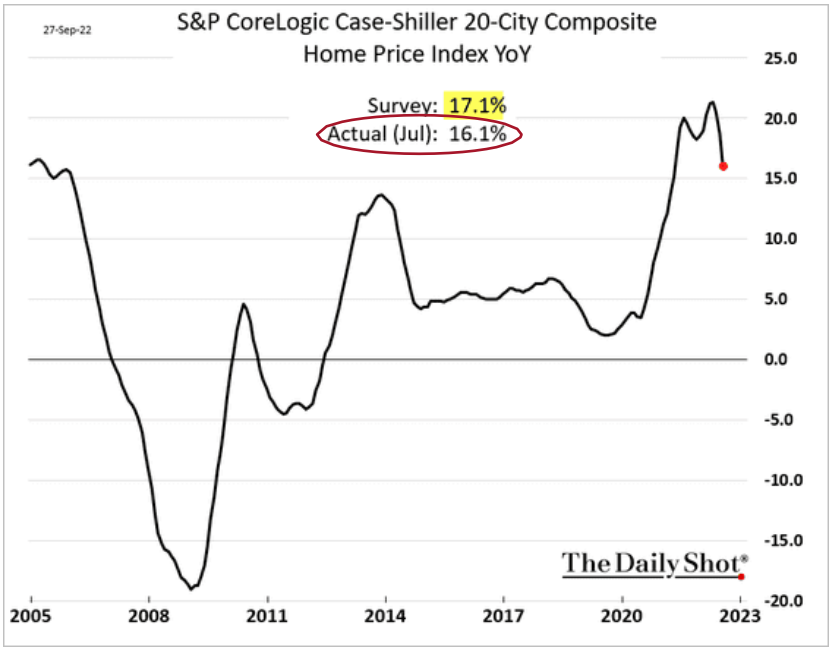


As of early September, having declined for seven consecutive months and having reached their lowest level since May 2020, existing home sales are down -27% from their peak and -25% thus far in 2022; new home sales are down -50% from their peak and -40% year-to-date; and the 1.7 million in aggregate new homes under construction exceeds the total experienced in the pre-2008 housing bubble.

According to mortgage data provider Black Knight Inc., marking the largest monthly declines since January 2009, median home prices fell -0.98% in August month-over-month, following a -1.1% decline month-over-month in July. And the downward-turning S&P CoreLogic Case-Shiller 20-City Composite Home Price Indexes on a month-over-month basis and a year-over-year basis are shown in the two nearby charts.



Dated: September 2022



Inflation Vectors: The forces of inflation affect asset valuations through their influence on: (i) prices paid and prices received (and thus on corporate profitability); (ii) nominal and real interest rates (which in turn influence the capitalization rate applied to income streams of equities' dividends, bonds' coupon interest payments, real estate rent flows, and the capitalization rate applied to assets' terminal values; (iii) currency levels; and perhaps of paramount importance, (iv) monetary policy through central banks' mandates to pursue price stability and full employment, plus fiscal policy through the expense of government spending and debt service financing.

Elevated housing-related and labor costs tend to not be as susceptible to downward-trending supply/demand forces as grains, gasoline, industrial metals, and a considerable number of other goods. As highlighted with red circles in the nearby Inflation Data table — helped by declining gasoline prices for gasoline, freight rates, and several other index components — on a year-over-year basis in August, Headline CPI had declined to +8.3% versus +8.5% in July (and +9.1% in June), Headline PPI had decreased to + 8.7% in August versus +9.8% in July (and +11.3% in June), and Headline Personal Consumption Expenditures prices had declined to +6.2% in August versus +6.4% in July (and +6.8% in June). After excluding food and energy prices, on a year-over-year basis in August, Core CPI (at +6.3% versus +5.9% in July) and Core Personal Consumption Expenditures prices (at +4.9% versus +4.7% in July) were continuing to trace out a rising path even as Core PPI at +7.3% for August was rising at lower a slower rate than July's +7.6% rate of advance.

To be sure, as highlighted in the nearby table of release dates, in the near-term, the FOMC will be carefully parsing the September PPI data (to be released on Wednesday, October 12th), the September CPI data (to be released on Thursday, October 13th), and (especially since the August Core PCE month-over-month and year-over-year readings surprised to the upside versus expectations), the September Personal Consumption Expenditures inflation report (to be released on Friday, October 30th). In quite a few sectors of the economy, the rate of inflation has slightly declined, even as price level changes remain at an uncomfortably high level.

Reported inflation data affect: (i) wage and compensation bargaining; (ii) price escalation clauses in rental agreements and many other contracts; and crucially, (iii) consumers', workers', and businesses' inflation expectations. The Federal Reserve and numerous other central bankers thus carefully monitor inflation expectations to determine whether higher prices are begetting higher wages on a recurrent basis, creating a difficult-to-tame wage-price spiral.

Showing inflation beliefs drawn from the monthly New York Federal Reserve Survey of Consumer Expectations, respondents' one-year ahead inflation expectations had declined to +5.7% in August versus +6.2% in July, and hearteningly, respondents' three-year ahead inflation expectations had declined to +2.8% in August versus +3.2% in July. A similar trend can be discerned from the results of the Inflation Expectations portion of the University of Michigan Consumer Sentiment Survey. Respondents' one-year ahead inflation expectations had marginally declined to +4.7% in September versus +4.8% in August, and on an encouraging note, respondents' 5-to-10 year-ahead inflation expectations remained below the one-year ahead expectations and had declined to +2.7% in September versus +2.9% in August.

DayMark WEALTH PARTNERS

Inflation Data								
	August				July			
	Release Date	Mo.-Over-Mo.		Yr.-Over-Yr.	Release Date	Mo.-Over-Mo.		Yr.-Over-Yr.
Headline CPI	09/13	+0.1%	Aug	+8.3%	08/10	+0.0%	July	+8.5%
Core[1] CPI	09/13	+0.6%	Aug	+6.3%	08/10	+0.3%	July	+5.9%
Headline PPI	09/14	-0.1%	Aug	+8.7%	08/11	-0.4%	July	+9.8%
Core[1] PPI	09/14	+0.4%	Aug	+7.3%	08/11	+0.2%	July	+7.6%
Headline PCE	09/30	+0.3%	Aug	+6.2%	08/26	-0.1%	July	+6.4%
Core[1] PCE	09/30	+0.6%	Aug	+4.9%	08/26	+0.0%	July	+4.7%

Note: (1) Excludes food and energy prices.

Source: The Wall Street Journal and the Bureau of Labor Statistics 09/2022

Release Dates	
06/10/2022 – May CPI ✓ 06/14/2022 – May PPI✓ 06/30/2022 – May PCE✓	10/12/2022 – September PPI 10/13/2022 – September CPI 10/28/2022 – September PCE
07/13/2022 – June CPI✓ 07/14/2022 – June PPI✓ 07/29/2022 – June PCE✓	11/10/2022 – October CPI 11/15/2022 – October PPI 12/01/2022 – October PCE
08/10/2022 – July CPI✓ 08/11/2022 – July PPI✓ 08/26/2022 – July PCE✓	12/09/2022 – November PPI 12/13/2022 – November CPI 12/23/2022 – November PCE
09/13/2022 – August CPI✓ 09/14/2022 – August PPI✓ 09/30/2022 – August PCE✓	01/11/2023 (E) – December CPI 01/12/2023 (E) – December PPI 01/27/2023 (E) – December PCE

Survey of Consumer Expectations	August	July
NY Fed SCE Median 1-year ahead inflation expectations (09/12)	+5.7%	+6.2%
NY Fed SCE Median 3-year ahead inflation expectations (09/12)	+2.8%	+3.2%
University of Michigan Consumer Sentiment	**September**	**August**
U. Michigan Survey 1-year inflation expectations (09/30)	+4.7%	+4.8%
U. Michigan Survey 5-10 year inflation expectations (09/30)	+2.7%	+2.9%

Source: Federal Reserve Bank of New York and the University of Michigan. Dated: September 2022

Approaching the upcoming holiday season and the turn of the year, and in the absence of any large-scale financial shocks arising from: (i) political, regulatory, judicial, global trade, or geopolitical developments; (ii) monetary, fiscal, and currency policies; (iii) energy (and semiconductor) supply and demand levels; and (iv) public health and/or climatological conditions; we are of the opinion that inflation is likely to continue trending downward, albeit at a gradual pace, to what could represent an elevated plane measurably above the widely-mentioned +2.0% circumstances of the pre-Covid years, perhaps to the +3.5-4.5% range in 2023 and on into 2024.

As of now, we believe that financial asset prices are likely to be driven by the degree of the Federal Reserve's inflation-fighting resolve, which in turn should exert influence on the course of the economy and corporate financial results. As mentioned above, we expect S&P 500 earnings estimates to be guided downward by corporate managements and revised downward further by analysts in the waning months of 2022, which is likely to present somewhat of a headwind on equity prices. In the Portfolio Positioning section which follows, we therefore emphasize patience, discernment, caution, discipline, deliberation, and time-spacing unhurriedness in increasing exposure to risk assets, with emphasis on quality and an unyielding insistence on a favorable risk-reward calculus for existing asset allocations and new capital commitments.

IMPORTANT DISCLAIMERS AND DISCLOSURES

DayMark Wealth Partners ("DMWP") is an investment adviser in Cincinnati, OH. DMWP is registered as an investment adviser with the United States Securities and Exchange Commission (the "SEC"). DMWP only transacts business in states where it is properly registered, or is excluded or exempted from registration requirements. SEC registration does not constitute an endorsement of the Firm by the Commission nor does it indicate that the Firm has attained a particular level of skill or ability. The acronym "RIA" stands for Registered Investment Adviser and should not be construed as being a designation.

This message is intended for the exclusive use of clients or prospective clients of DMWP. It should not be construed as an attempt to sell or solicit any products or services of DMWP or any investment strategy, nor should it be construed as legal, accounting, tax or other professional advice.

This material is proprietary and may not be reproduced, transferred, modified or distributed in any form without prior written permission from DMWP. DMWP reserves the right, at any time and without notice, to amend, or cease publication of the information contained herein. Certain of the information contained herein has been obtained from third party sources and has not been independently verified. It is made available on an "as is" basis without warranty. Any strategies or investment programs described in this presentation are provided for educational purposes only and are not necessarily indicative of securities offered for sale or private placement offerings available to any investor.

The views expressed in the referenced materials are subject to change based on market and other conditions. This document contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance; actual results or developments may differ materially from those projected. Any projections, market outlooks, or estimates are based upon certain assumptions and should not be construed as indicative of actual events that will occur.

Historical performance results for investment indices and/or product benchmarks have been provided for general comparison purposes only, and do not include the charges that might be incurred in an actual portfolio, such as transaction and/or custodial charges, investment management fees, or the impact of taxes, the incurrence of which would have the effect of decreasing historical performance results.