



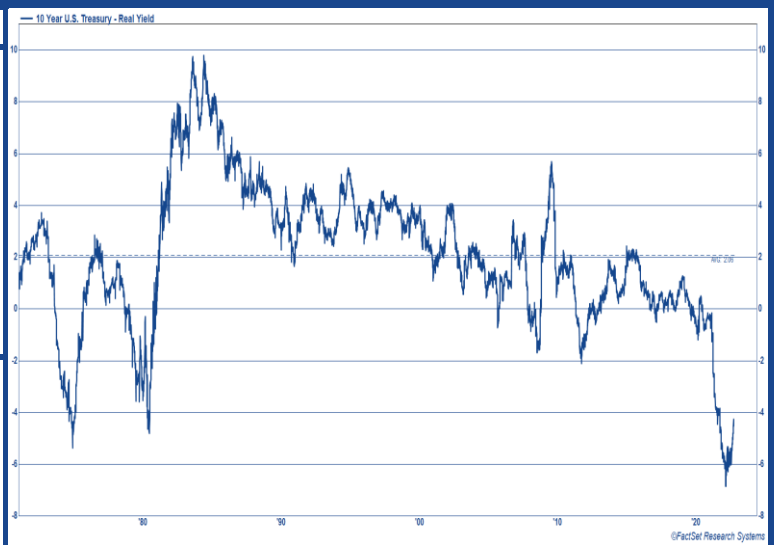
Economic & Market Commentary

With September inflation once again coming in hotter than expected, bond yields moved higher across the entire treasury yield curve. So, this begs the question, how much higher will interest rates go? It is impossible to answer that question, but the probability is modestly higher. The Federal Reserve (Fed) controls the short-end of the yield curve via monetary policy while long-term inflation expectations control the long-end of the yield curve. The Fed is in the midst of an aggressive rate hike campaign to curtail inflation, and this has driven short-term yields significantly higher this year. Just look at the U.S. Treasury Yield section below to see the change in short-term yields from one-year ago, up roughly 4.0%. CBOE fed fund futures currently show a 77% probability of the Fed raising rates to a range of 5.00% - 5.25% by March 2023. Thus, short-term rates are likely moving moderately higher from current levels. Let's take a look at the 10-year yield. Long-term inflation expectations play an important role in determining nominal (actual) 10yr yields. Normally, the 10-yr yield has an imbedded inflation risk premium to account for the possibility that inflation may rise or fall while holding the bond and is measured by taking the 10yr yield and subtracting it from the inflation rate. This is also known as the real yield or real interest rate. Historically, this inflation premium has averaged 2.1% above the rate of inflation. If inflation remains stubborn and averages 2.5%-3.5% over the next year or two, it increases the likelihood that the 10yr yield will move higher. A couple of widely-used gauges of inflation expectations come from TIPS bonds and consumer surveys. TIPS are used to determine break-even inflation which is measured by taking the nominal 10yr yield (+4.0%) and subtracting it from the 10yr TIPS yield (+1.6%) and this currently stands at +2.4%. The October University of Michigan Consumer Sentiment survey, which the Fed watches closely, showed 5yr inflation expectations moved higher by 0.2% to 2.9%. Thus, expect the 10yr yield to trend higher near-term.

Index Total Returns - October 14, 2022

	1-Wk	YTD	1-Yr
Dow Jones	1.17	-17.13	-13.38
S&P 400	-0.93	-19.99	-16.96
S&P 500	-1.53	-23.87	-18.01
Russell 2000	-1.15	-24.28	-25.05
MSCI-Emerging	-3.81	-28.17	-29.90
MSCI-Developed	-1.35	-26.68	-25.38
NASDAQ	-3.11	-33.62	-29.84
Barclay's U.S. Bond Index			
5-year Muni	0.09	-7.60	-7.55
Int. Gov. Credit	-0.62	-10.34	-10.70
Municipal	0.03	-11.37	-10.65
High Yield	-1.11	-14.49	-13.70
Aggregate	-1.19	-15.84	-15.90

U.S Treasury 10-Year Real Yields (Actual yield less inflation rate)



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	4.29	4.28	0.10
U.S. 2-Yr	4.50	4.30	0.35
U.S. 3-Yr	4.49	4.32	0.63
U.S. 5-Yr	4.27	4.14	1.05
U.S. 10-Yr	4.01	3.88	1.52
U.S. 30-Yr	3.97	3.84	2.02

S&P 500 Sector Total Returns - October 14, 2022

Sector	1-Wk	YTD	1-Yr
Energy	-1.82	50.84	49.06
Utilities	-2.58	-11.32	-2.84
Health Care	0.87	-11.16	-1.31
Consumer Staples	1.45	-10.88	-1.99
Industrials	-0.56	-18.90	-15.45
Financials	0.23	-19.54	-18.87
Materials	-1.86	-23.55	-16.98
Info Tech	-3.22	-32.54	-23.99
Consumer Discretionary	-4.09	-33.51	-27.38
Real Estate	-2.34	-33.33	-24.55
Communication Services	-1.85	-39.15	-40.06

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	3.62	3.63	1.00
U.S. AA	3.77	3.77	1.05
U.S. A	4.31	4.30	1.29
U.S. Baa	4.82	4.79	1.58
U.S. Municipal	3.94	3.94	1.15
Michigan	4.04	4.03	1.25

Index Characteristics	P/E NTM	P/E NTM 10yr-Avg.	Dividend Yield
S&P 500 - Large Cap	15.30	17.30	1.75
S&P 400 - Mid Cap	11.51	15.53	1.60
S&P 600 - Small Cap	10.80	16.37	1.60