United Methodist Foundation
of the Northern Illinois Conference, Inc.

155 North Wacker Drive
Suite 4250
Chicago, IL 60606

312.334.0703 OFFICE
815.201.2199 MOBILE
cwalters@umfnic.org

UMFNIC.org
UMFGift.org

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Dear Partners in Ministry,

Enclosed is the 2022 3rd quarter statement for your account(s) at the United Methodist Foundation (statements from 7/1/17 are accessible online). Net of fees, the returns of the fund models are:

As of 9/30/2022	3rd Qtr 2022	Year to Date	Last 1 Year†	Last 3 Years†	Last 5 Years†	Last 10 Years†
Aggressive Fund	**-5.84%**	**-23.46%**	**-18.48%**	**4.35%**	**5.52%**	**6.61%**
Agg. Climate	-6.84%	-25.25%	-19.53%	n/a	n/a	n/a
benchmark*	-6.02%	-23.00%	-18.48%	3.97%	5.03%	7.00%
Moderate Fund	**-4.76%**	**-19.09%**	**-15.65%**	**2.76%**	**4.18%**	**5.00%**
Mod. Climate	-5.30%	-19.85%	-15.80%	1.08%	n/a	n/a
benchmark*	-4.89%	-18.79%	-15.52%	2.57%	3.97%	5.48%
Conservative Fund	**-3.67%**	**-14.43%**	**-12.72%**	**0.71%**	**2.35%**	**3.08%**
Con. Climate	-3.87%	-14.54%	-12.29%	n/a	n/a	n/a
benchmark*	-3.90%	-14.45%	-12.76%	0.66%	2.49%	3.72%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized. See the monthly performance reports online: https://umfnic.org/investment-performance-reports/

Market Commentary from Envestnet | PMC

Brandon Thomas, Co-Founder and Chief Investment Officer, Envestnet, concluded their "Economic and Market Overview: Third Quarter 2022" report with the following observations and commentary:

> "The global economy is currently teetering on the brink of recession after having delivered a strong post-pandemic recovery. Decades-high inflation caused by supply shortages and rising commodity prices – as well as an aggressive central bank policy response – is undoing the global expansion. In addition, China's economy is facing many challenges, led by a cooling property market. Despite the recent slowdown, analysts expect the global economy to end up with modestly positive growth at year end. Prices have increased for 12 consecutive months, and the inflation rate is at its highest level in more than 40 years. Three primary culprits for the spike in inflation are supply chain bottlenecks that persist from the pandemic lockdowns, the disruption of energy and food supplies resulting from the war in Ukraine, and the trillions of dollars in fiscal stimulus coursing through the economy. With a slowing world economy and high inflation economists are concerned about 'stagflation.' While there are a few bright spots in the data, including robust employment reports, economists remain subdued regarding the outlook for the economy, citing uncertainty on the supply chain and inflation fronts, as well as an increasingly volatile geopolitical environment."[1]

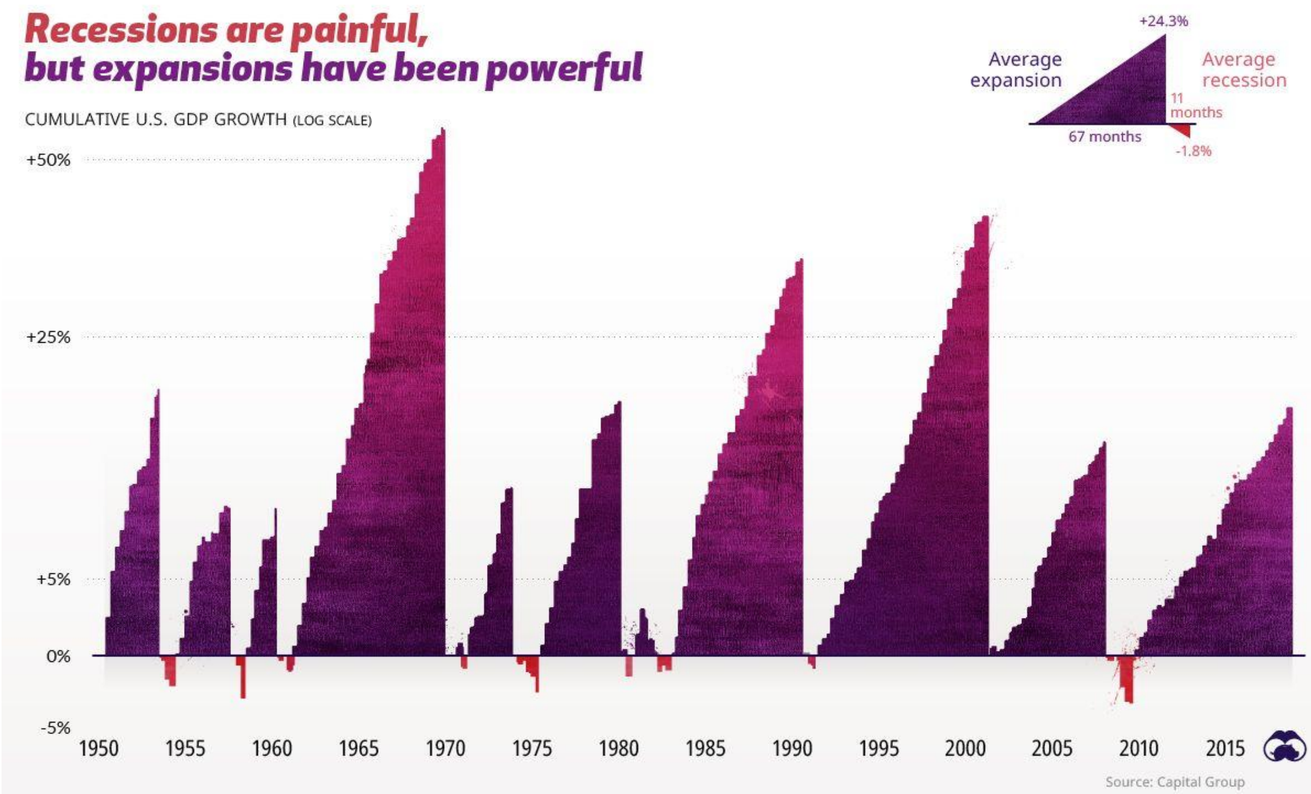
"The global economy is currently teetering on the brink of recession"

When the chorus of commentators and forecasters starts singing the same note of "recession," that can be a sign the stock market has already priced in a weaker economic environment. The market anticipates recessions more rapidly than it anticipates improving economic conditions. The main question long-term investors should be asking themselves is, "*How much* of a weaker economy is already priced in?"

We will do well to remind ourselves of three things in times like these when investing:

- Recessions are an unavoidable part of our economic system
- Recessions are temporary and don't last long compared to periods of growth
- Recessions are, counter-intuitively, great times to invest because stock prices are lower

Long-term investors that stay the course and, if possible, that can invest more during downturns can earn substantial gains when the recovery comes. The graphic below visually demonstrates the dramatic difference in compounding economic growth versus the relatively brief times of recession:[2]



The lesson to be learned is to stay the course and reap the benefits of future economic growth.

"aggressive central bank policy response – is undoing the global expansion"

You have probably heard the expression, "Don't fight the Fed." That pithy wisdom applies when rates are low, which they have been for two decades, and stock prices marched higher and higher, and it also applies when the Fed is raising rates, as they are now doing, to dampen debt-related economic activity in their pursuit to tackle inflation.

Why do stock prices decline as the Fed raises rates? Michael Smolyansky, Senior Economist of the Federal Reserve explains in his September 6 note, "The coming long-run slowdown in corporate profit growth and stock returns:"[3]

> Over the past two decades, the corporate profits of stock market listed firms have been substantially boosted by declining interest rate expenses and lower corporate tax rates. This note's key finding is that the reduction in interest and tax expenses is responsible for a full one-third of all profit growth for S&P 500 nonfinancial firms over the prior two-decade period.
> …
> What does this imply for stock returns? Over the past two decades, the market capitalization of S&P 500 nonfinancial firms increased at a rate of almost 6 percent in real terms. If corporate profit growth is expected to be substantially slower than in the past, then such stock market performance could only be sustained by the perpetual expansion of P/E multiples. Clearly, this is unsustainable.

One way to think of the relationship between interest rates and corporate price-to-earnings (P/E) ratios is to think of a teeter-totter with interest rates on one end and P/E ratios on the other end. When rates are lower, P/E ratios go up. When rates go higher, P/E ratios go down. The increase in interest rates and compression in P/E ratios are becoming more in line with historical averages:

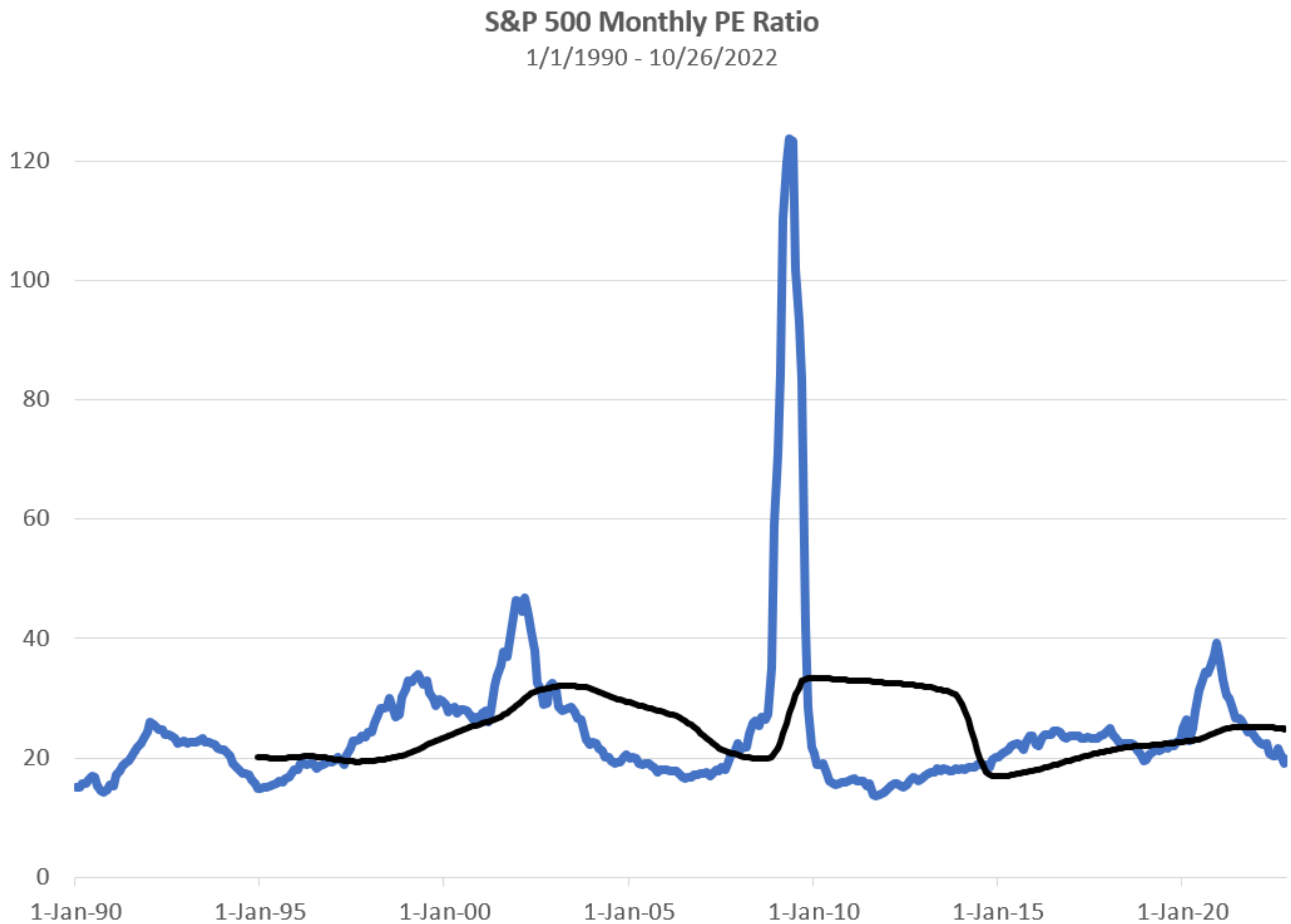
Current 20 Year Treasury Rate: 4.38%
At market close Wed Oct 26, 2022
Mean: 4.36%
Median: 4.50%
Min: 1.06% (Apr 2020)
Max: 8.20% (Nov 1994)

20 Year Treasury Rate[4]

Source: U.S. Treasury via multipl.com

Likewise, the P/E ratio of the S&P 500[5] is now below its average of 24.5, the index's average measured from January 1, 1990. Currently, the S&P 500's P/E is 19.8.

The next chart displays the monthly average P/E of the S&P 500 from January 1, 1990, through this month (blue line) and the 5-year rolling average P/E (black line).



The teeter-totter of the stock market is teetering and tottering, but for long-term investors it's expected and endurable. Eventually, the teetering and tottering will diminish and provide a less volatile ride.

Respectfully,

Chris Walters

Rev. Chris Walters, President & CEO ● 312.334.0703 ● cwalters@umfnic.org

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[1] https://www.investpmc.com/sites/default/files/documents/PMC_QuarterlyMarketEnvironment.pdf

[2] https://www.visualcapitalist.com/recessions-everything-you-need-to-know/

[3] https://www.federalreserve.gov/econres/notes/feds-notes/the-coming-long-run-slowdown-in-corporate-profit-growth-and-stock-returns-20220906.html

[4] https://www.multpl.com/20-year-treasury-rate

[5] https://www.multpl.com/s-p-500-pe-ratio