

October 2022 Market Update

October saw a significant dispersion in returns among asset classes. U.S. stocks gained a respectable 8.1%, international stocks and real estate were up about 3.5% but bonds dropped 1.3%. Ten-year yields increased from 3.83% to 4.10%.

October's CPI was higher than expected as headline CPI was +0.4% vs expectations of +0.2% and core CPI was +0.6% vs expectations of +0.4%. Year-over-year headline CPI is 8.2% and core CPI is 6.6%.

Since the Financial Crisis in 2008 - and especially since the COVID pandemic began in March 2020 - asset allocation decisions have been distorted by "There Is No Alternative" or "TINA", meaning that bond yields were so low - as low as 2% - that investors were compelled to take higher stock allocations to achieve long-term return goals. Higher stock allocations led to higher stock prices and higher stock returns. TINA died a gradual death this year as the Fed increased interest rates to combat inflation. Bond yields today are 5% to 6%, giving investors a more attractive risk-adjusted alternative to riskier stocks whose historical return is about 10%. With the end of TINA, investors need to re-evaluate increasing their bond market allocations.

Table 1: Benchmark Index ETF Performance as of October 31, 2022

<i>Benchmark Index</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>5 Yr Ann</i>
U.S. Stocks	8.1%	-5.5%	-18.7%	9.8%
International Stocks	3.4%	-11.0%	-24.1%	-0.4%
U.S. Bonds	-1.3%	-8.3%	-15.5%	-0.6%
U.S. Real Estate	3.5%	-15.2%	-26.8%	4.0%

Table 2: Vanguard Asset Allocation Benchmarks as of October 31, 2022

<i>Vanguard Fund: % Stock/% Bond mix</i>	<i>1 Mo</i>	<i>3 Mo</i>	<i>YTD</i>	<i>5 Yr Ann</i>
LifeStrategy Growth Fund: 80/20	4.8%	-7.5%	-19.7%	4.6%
LifeStrategy Moderate Growth Fund: 60/40	3.4%	-7.5%	-18.4%	3.4%
LifeStrategy Conservative Growth Fund: 40/60	2.0%	-7.4%	-17.1%	2.3%

Chart 1: Year-to-Date Market Performance as of October 31, 2022

