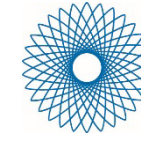




**Gradient Capital**  
ADVISORS, LLC

# Q3

Quarterly Market Review  
Third Quarter 2022



# Quarterly Market Review

Third Quarter 2022

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

## Overview:

Market Summary

World Stock Market Performance

US Stocks

International Developed Stocks

Emerging Markets Stocks

Country Returns

Real Estate Investment Trusts (REITs)

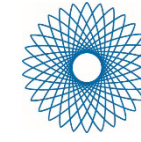
Commodities

Fixed Income

Global Fixed Income

Impact of Diversification

Quarterly Topic: What Drives Investment Returns? Start with Ingenuity.

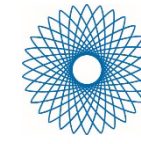


# Quarterly Market Summary

## Index returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>Q3 2022</b>	<b>STOCKS</b>				<b>BONDS</b>	
	<b>-4.46%</b>	<b>-9.20%</b>	<b>-11.57%</b>	<b>-11.12%</b>	<b>-4.75%</b>	<b>-2.21%</b>
<b>Since Jan. 2001</b>						
Average Quarterly Return	2.1%	1.3%	2.4%	2.2%	0.9%	0.9%
Best Quarter	22.0%	25.9%	34.7%	32.3%	4.6%	4.6%
	<b>2020 Q2</b>	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q3</b>	<b>2001 Q3</b>	<b>2008 Q4</b>
Worst Quarter	-22.8%	-23.3%	-27.6%	-36.1%	-5.9%	-4.1%
	<b>2008 Q4</b>	<b>2020 Q1</b>	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2022 Q1</b>	<b>2022 Q1</b>

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net dividends]), Emerging Markets (MSCI Emerging Markets Index [net dividends]), Global Real Estate (S&P Global REIT Index [net dividends]), US Bond Market (Bloomberg US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved. Bloomberg data provided by Bloomberg.

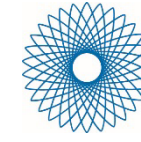


# Long-Term Market Summary

Index returns as of September 30, 2022

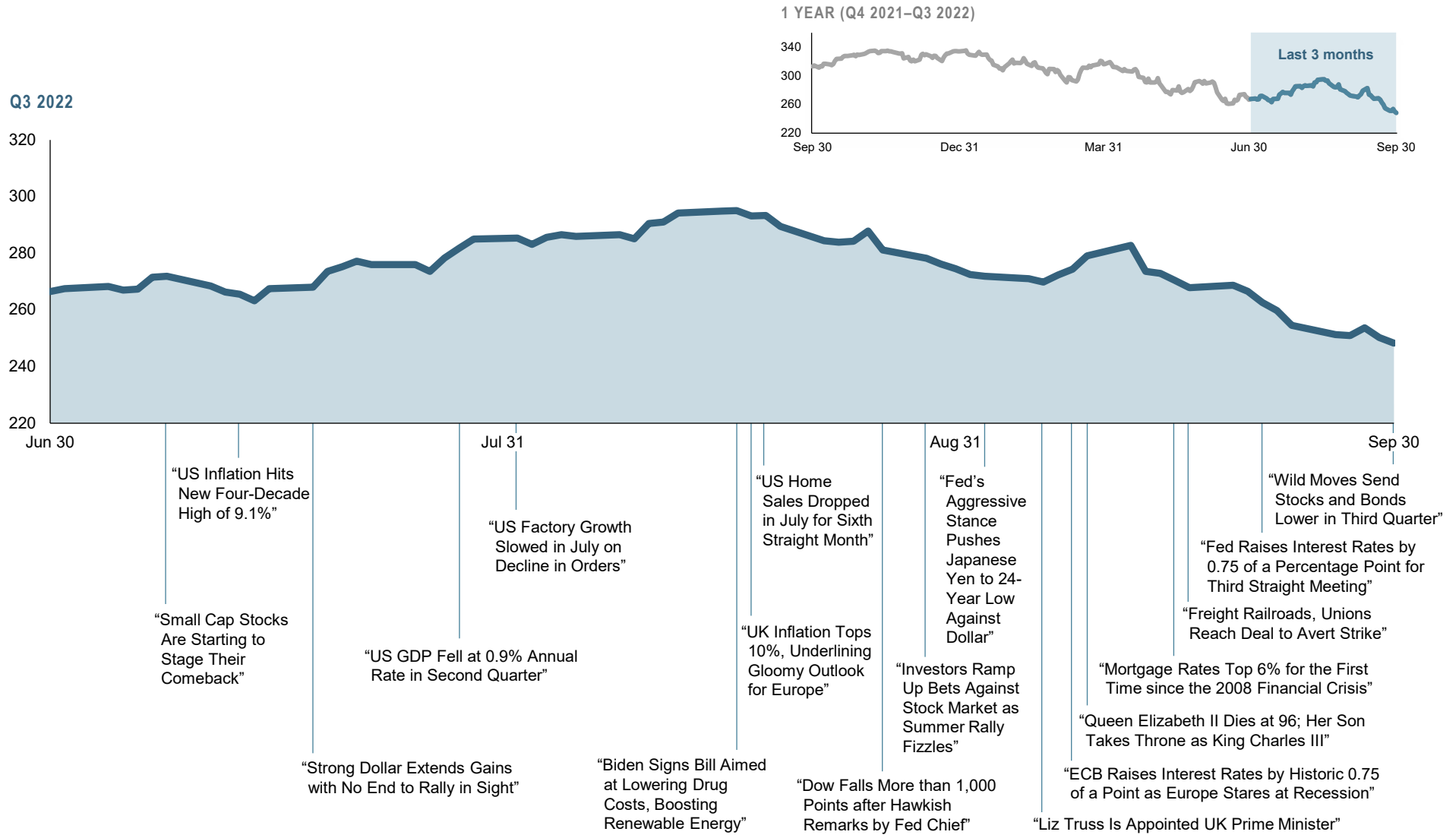
	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	-17.63%	-23.91%	-28.11%	-20.49%	-14.60%	-9.86%
5 Years	8.62%	-0.39%	-1.81%	0.17%	-0.27%	0.71%
10 Years	11.39%	3.62%	1.05%	3.58%	0.89%	2.21%

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# World Stock Market Performance

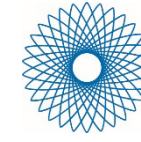
MSCI All Country World Index with selected headlines from Q3 2022



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

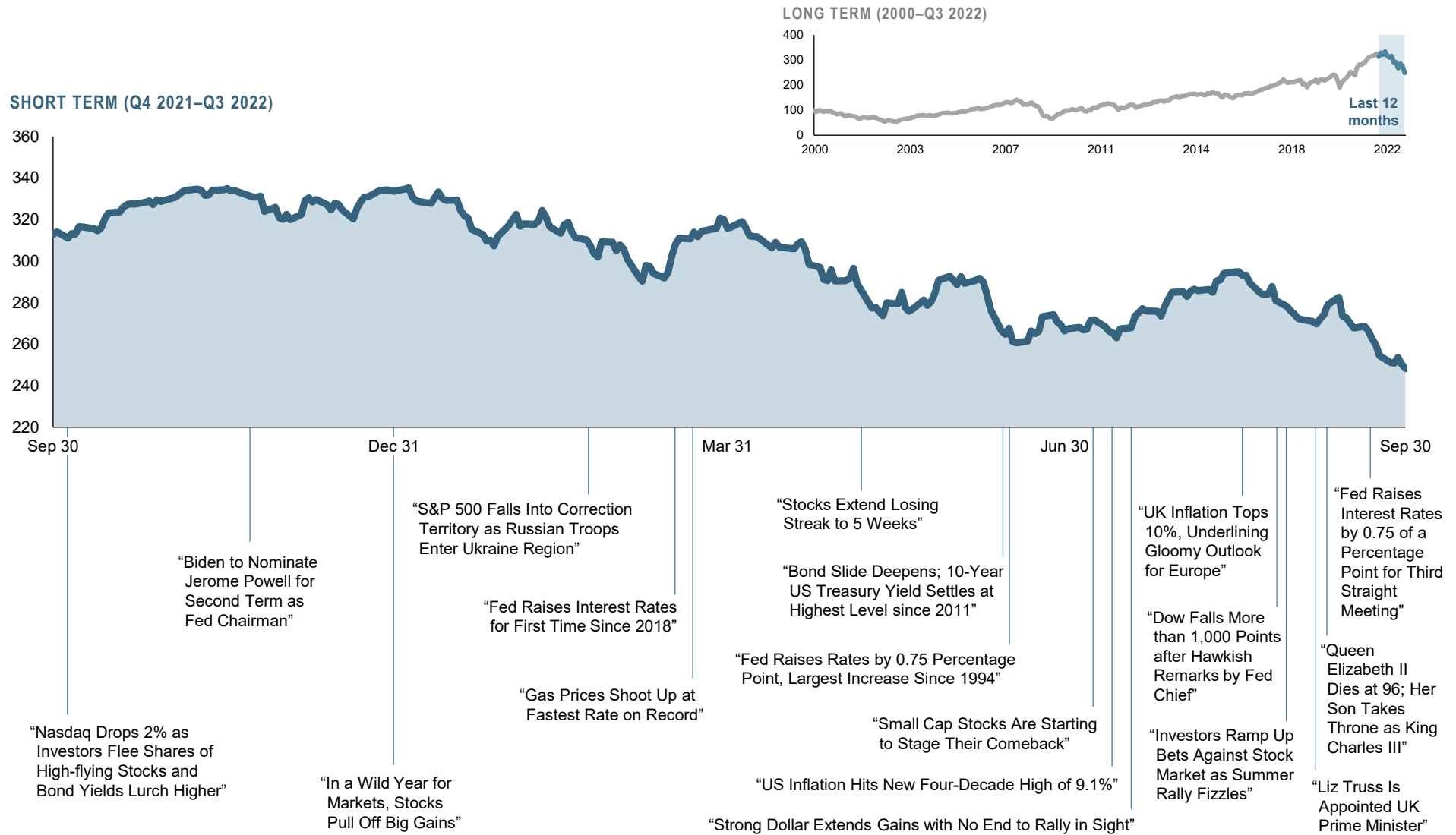
Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2022, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.



# World Stock Market Performance

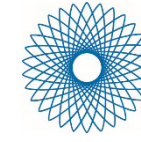
MSCI All Country World Index with selected headlines from past 12 months



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index (net dividends). MSCI data © MSCI 2022, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**



# US Stocks

## Third quarter 2022 index returns

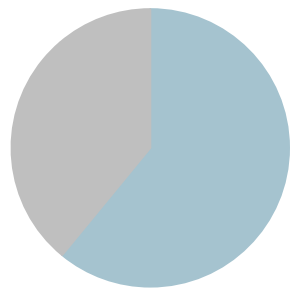
The US equity market posted negative returns for the quarter and outperformed both non-US developed and emerging markets.

Value underperformed growth.

Small caps outperformed large caps.

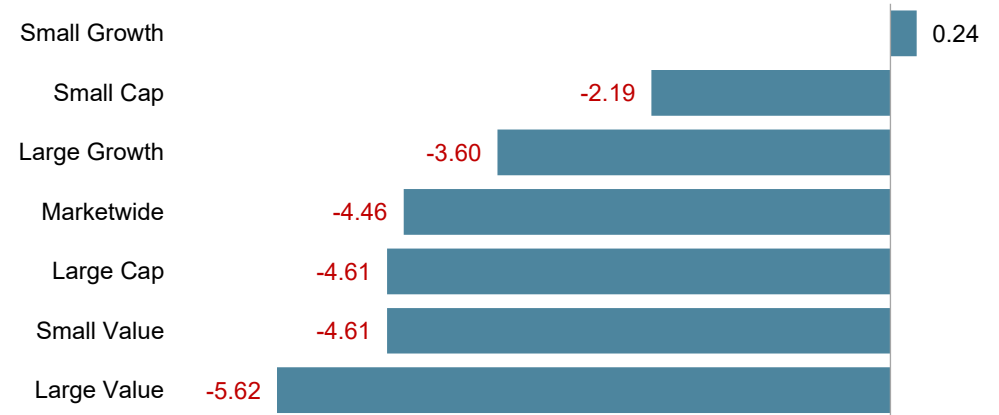
REIT indices underperformed equity market indices.

### World Market Capitalization—US



**61%**  
US Market  
\$35.6 trillion

### Ranked Returns (%)



### Period Returns (%)

Asset Class	* Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Growth	0.24	-29.28	-29.27	2.94	3.60	8.81
Small Cap	-2.19	-25.10	-23.50	4.29	3.55	8.55
Large Growth	-3.60	-30.66	-22.59	10.67	12.17	13.70
Marketwide	-4.46	-24.62	-17.63	7.70	8.62	11.39
Large Cap	-4.61	-24.59	-17.22	7.95	9.00	11.60
Small Value	-4.61	-21.12	-17.69	4.72	2.87	7.94
Large Value	-5.62	-17.75	-11.36	4.36	5.29	9.17

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Value (Russell 1000 Value Index), Large Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Value (Russell 2000 Value Index), and Small Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved.



# International Developed Stocks

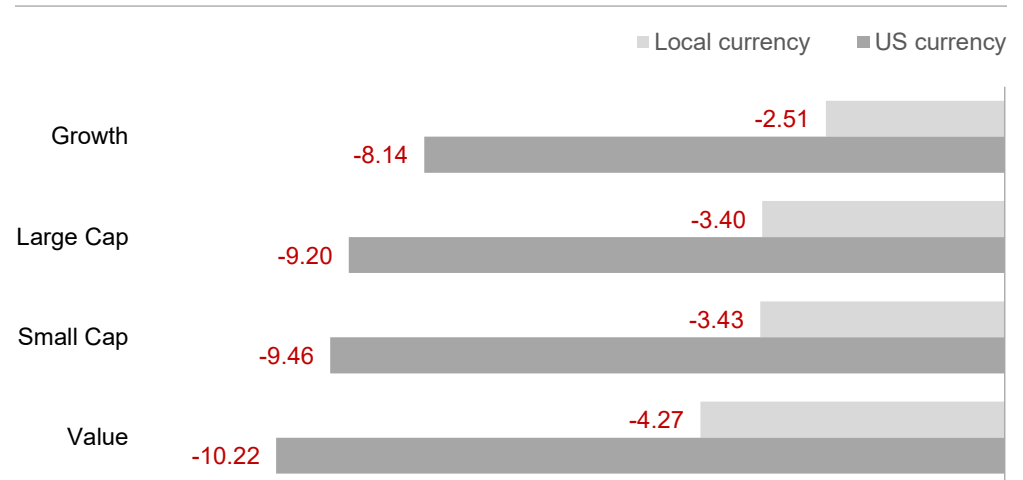
Third quarter 2022 index returns

Developed markets outside of the US posted negative returns for the quarter and underperformed the US market but outperformed emerging markets.

Value underperformed growth.

Small caps underperformed large caps.

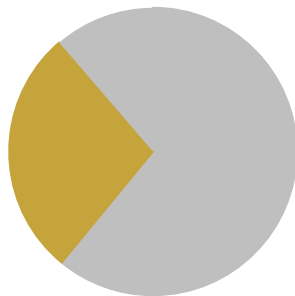
## Ranked Returns (%)



## World Market Capitalization—International Developed

**28%**

International Developed Market  
\$16.2 trillion

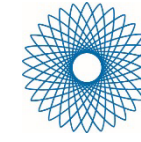


## Period Returns (%)

Asset Class	QTR	YTD	1 Year	* Annualized		
				3 Years*	5 Years*	10 Years*
Growth	-8.14	-32.33	-29.44	-1.14	0.85	4.46
Large Cap	-9.20	-26.23	-23.91	-1.21	-0.39	3.62
Small Cap	-9.46	-31.07	-30.80	-1.27	-1.24	4.78
Value	-10.22	-20.10	-18.58	-1.97	-2.08	2.53

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# Emerging Markets Stocks

Third quarter 2022 index returns

Emerging markets posted negative returns for the quarter and underperformed both US and non-US developed markets.

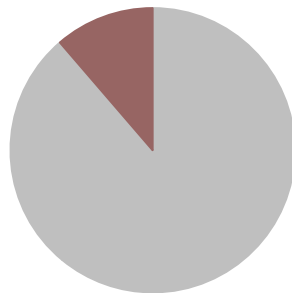
Value outperformed growth.

Small caps outperformed large caps.

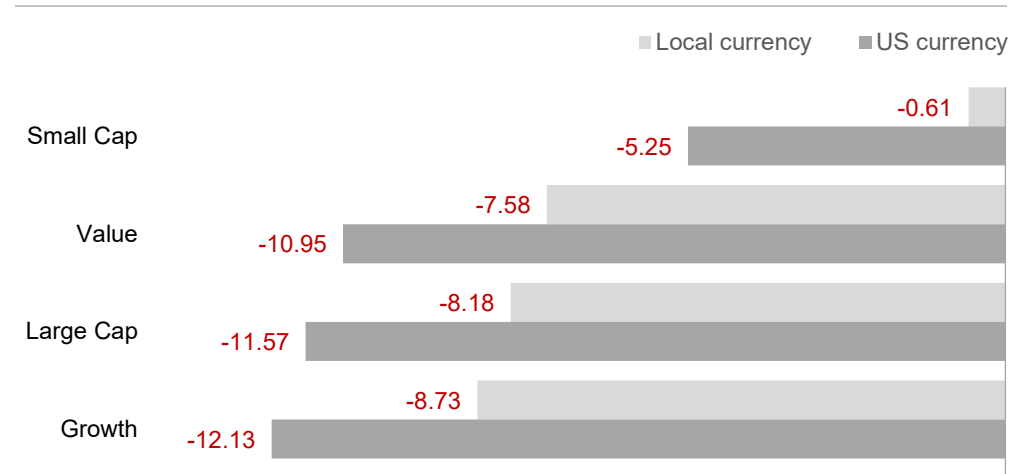
## World Market Capitalization—Emerging Markets

**11%**

Emerging Markets  
\$6.6 trillion



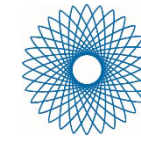
## Ranked Returns (%)



## Period Returns (%)

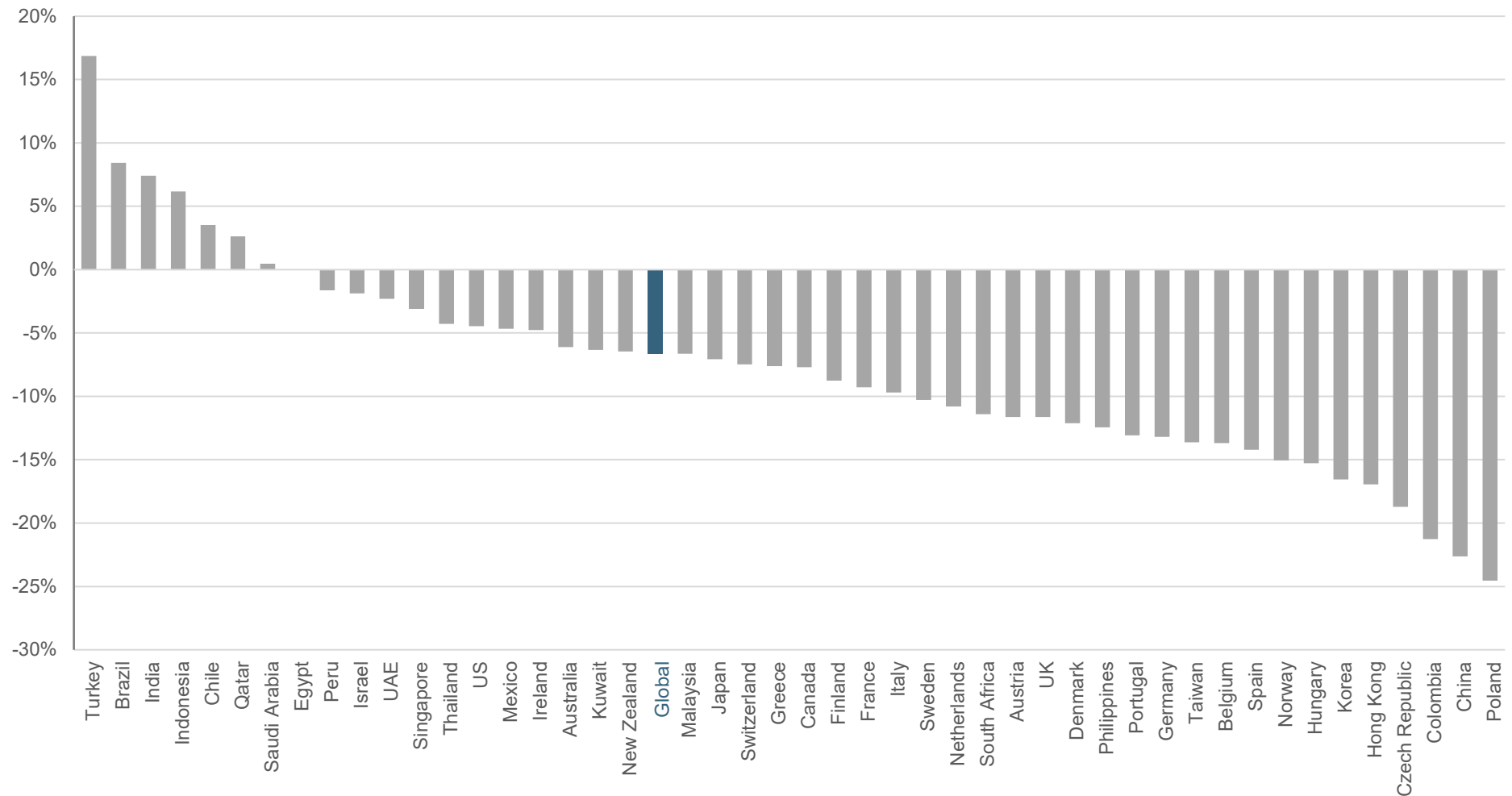
Asset Class	QTR	YTD	1 Year	* Annualized		
				3 Years*	5 Years*	10 Years*
Small Cap	-5.25	-24.23	-23.23	5.54	1.25	2.91
Value	-10.95	-23.32	-23.63	-2.57	-2.13	-0.41
Large Cap	-11.57	-27.16	-28.11	-2.07	-1.81	1.05
Growth	-12.13	-30.65	-32.09	-1.75	-1.64	2.38

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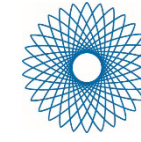
# Country Returns

Third quarter 2022 index returns



Past performance is no guarantee of future results.

Country returns are the country component indices of the MSCI All Country World IMI Index for all countries except the United States, where the Russell 3000 Index is used instead. Global is the return of the MSCI All Country World IMI Index. MSCI index returns are net dividend. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. MSCI data © MSCI 2022, all rights reserved.

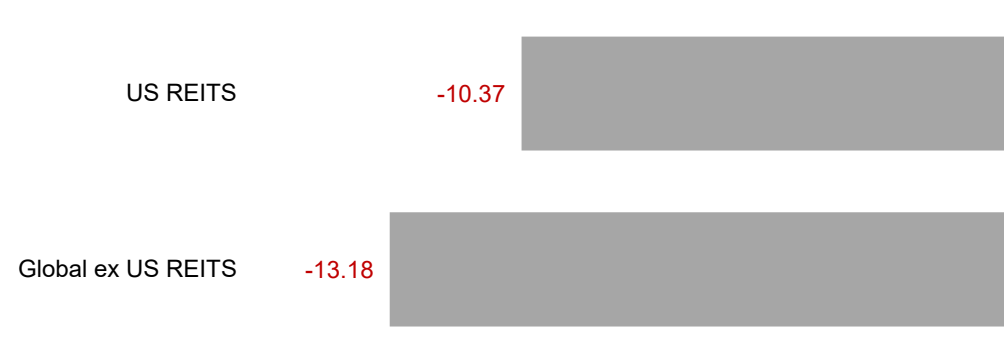


# Real Estate Investment Trusts (REITs)

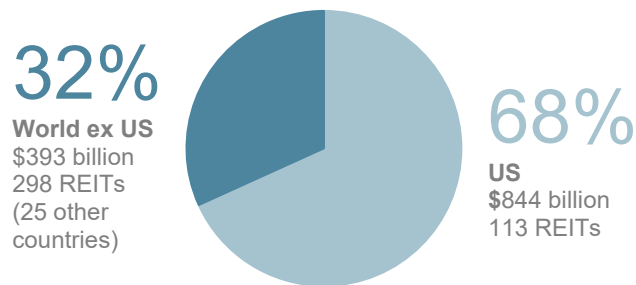
Third quarter 2022 index returns

US real estate investment trusts outperformed non-US REITs during the quarter.

## Ranked Returns (%)



## Total Value of REIT Stocks

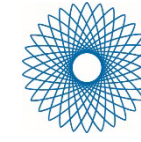


## Period Returns (%)

Asset Class	QTR	YTD	1 Year	* Annualized		
				3 Years*	5 Years*	10 Years*
US REITS	-10.37	-29.32	-17.15	-3.29	1.95	5.49
Global ex US REITS	-13.18	-30.48	-27.32	-9.72	-3.01	1.12

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# Commodities

## Third quarter 2022 index returns

The Bloomberg Commodity Total Return Index returned -4.11% for the third quarter of 2022.

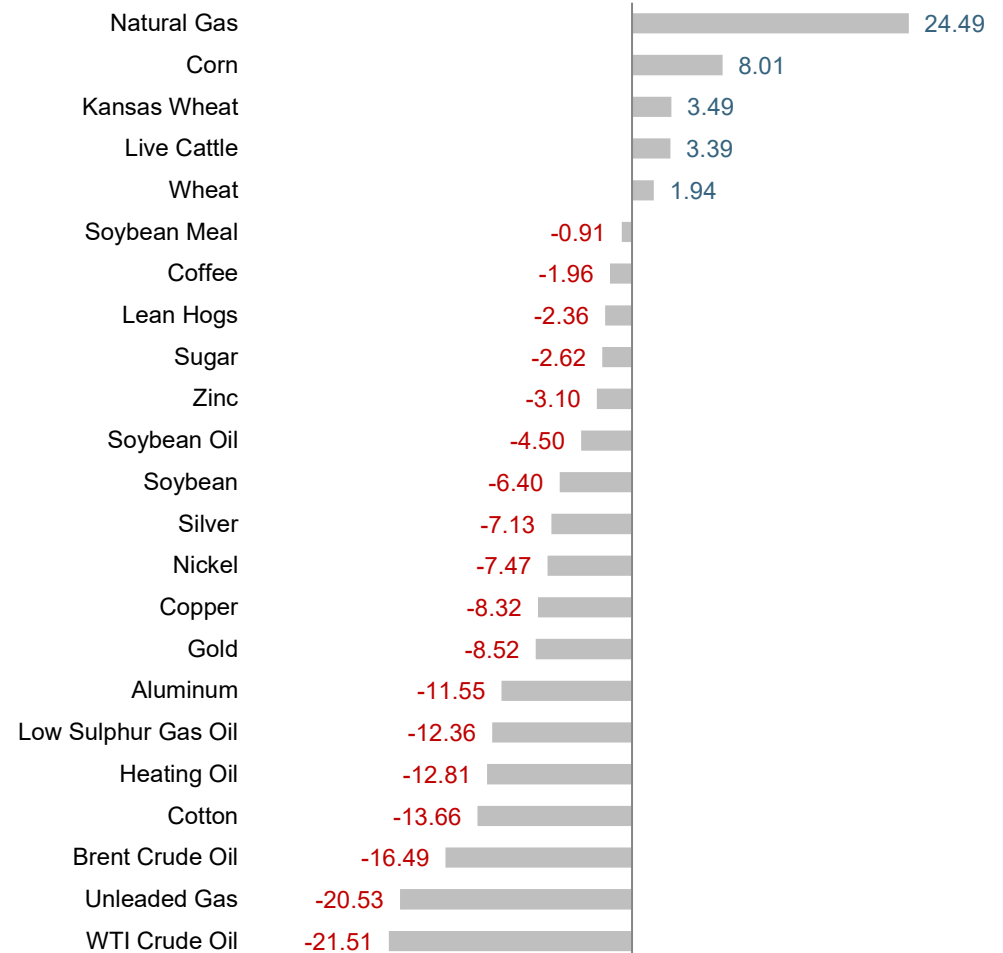
WTI Crude Oil and Unleaded Gas were the worst performers, returning -21.51% and -20.53% during the quarter, respectively. Natural Gas and Corn were the best performers, returning +24.49% and +8.01% during the quarter, respectively.

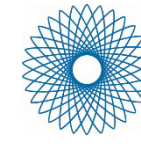
### Period Returns (%)

\* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-4.11	13.57	11.80	13.45	6.96	-2.14

### Ranked Returns (%)





# Fixed Income

## Third quarter 2022 index returns

Interest rates increased across all bond maturities in the US Treasury market for the quarter.

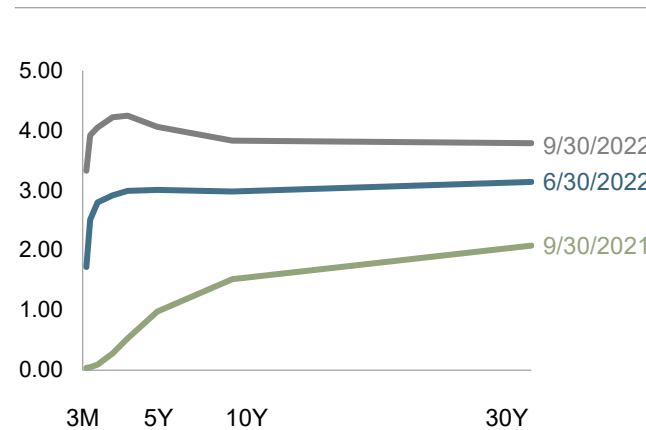
The yield on the 5-Year US Treasury Note increased 105 basis points (bps) to 4.06%. The yield on the 10-Year US Treasury Note increased 85 bps to 3.83%. The yield on the 30-Year US Treasury Bond increased 65 bps to 3.79%.

On the short end of the yield curve, the 1-Month US Treasury Bill yield increased 151 bps to 2.79%, while the 1-Year US Treasury Bill yield increased 125 bps to 4.05%. The yield on the 2-Year US Treasury Note increased 130 bps to 4.22%.

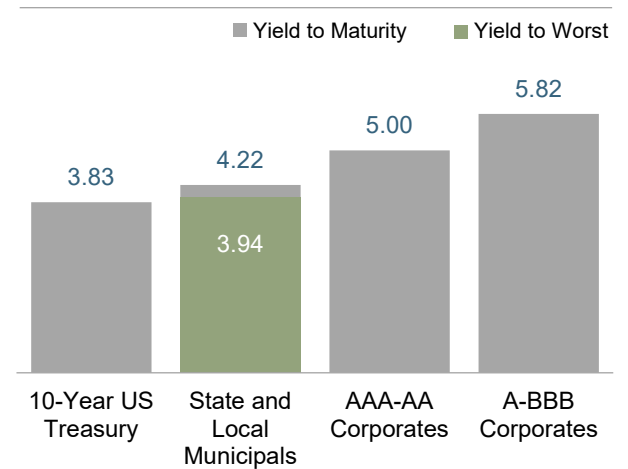
In terms of total returns, short-term corporate bonds returned -1.94% and intermediate-term corporate bonds returned -3.11%.<sup>1</sup>

The total return for short-term municipal bonds was -1.88% and -2.65% for intermediate-term municipal bonds. Within the municipal fixed income market, general obligation bonds outperformed revenue bonds, returning -3.30% vs. -3.62%, respectively.<sup>2</sup>

**US Treasury Yield Curve (%)**



**Bond Yield Across Issuers (%)**



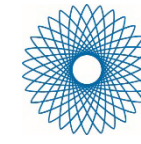
**Period Returns (%)**

Asset Class	QTR	YTD	1 Year	*Annualized		
				3 Years*	5 Years*	10 Years*
ICE BofA US 3-Month Treasury Bill Index	0.46	0.61	0.62	0.59	1.15	0.68
ICE BofA 1-Year US Treasury Note Index	-0.50	-1.77	-1.95	0.18	0.94	0.67
Bloomberg U.S. High Yield Corporate Bond Index	-0.65	-14.74	-14.14	-0.45	1.57	3.94
FTSE World Government Bond Index 1-5 Years (hedged to USD)	-1.79	-5.03	-5.53	-0.87	0.63	0.96
Bloomberg Municipal Bond Index	-3.46	-12.13	-11.50	-1.85	0.59	1.79
Bloomberg U.S. Aggregate Bond Index	-4.75	-14.61	-14.60	-3.26	-0.27	0.89
FTSE World Government Bond Index 1-5 Years	-4.77	-12.10	-13.34	-3.33	-1.83	-1.74
Bloomberg U.S. TIPS Index	-5.14	-13.61	-11.57	0.79	1.95	0.98
Bloomberg U.S. Government Bond Index Long	-9.60	-28.77	-26.60	-8.48	-1.62	0.60

1. Bloomberg US Corporate Bond Index.

2. Bloomberg Municipal Bond Index.

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds, and the Yield to Worst are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2022 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2022 ICE Data Indices, LLC. S&P data © 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Bloomberg data provided by Bloomberg.



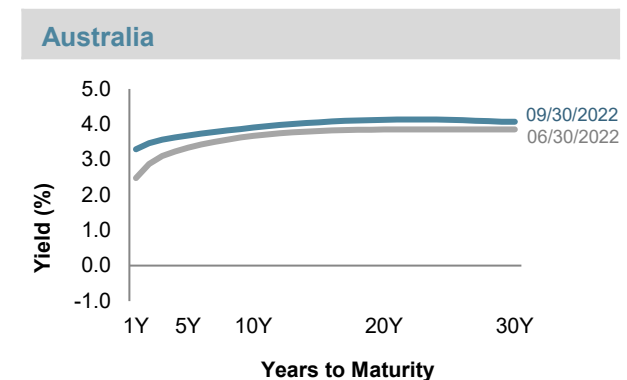
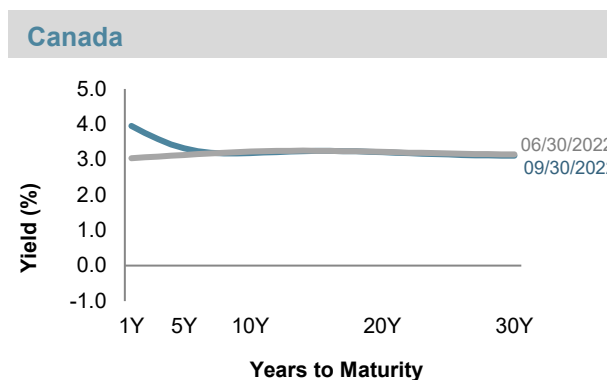
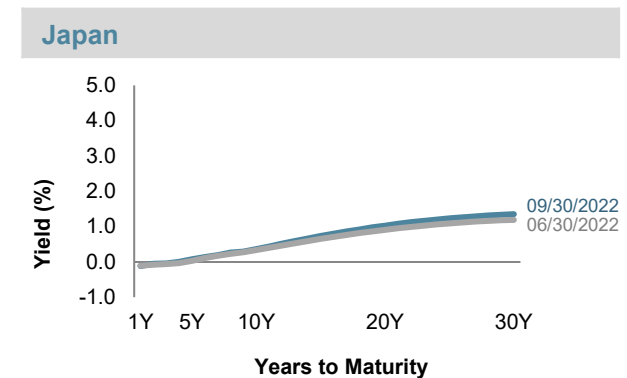
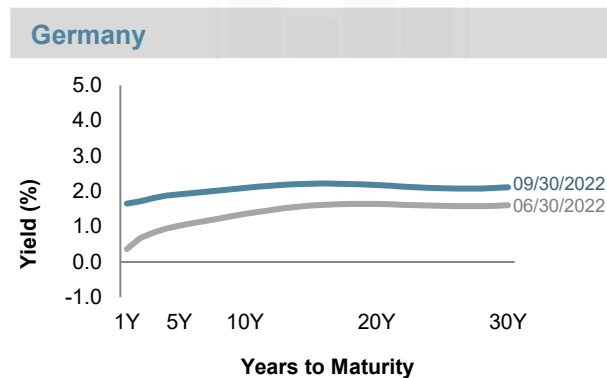
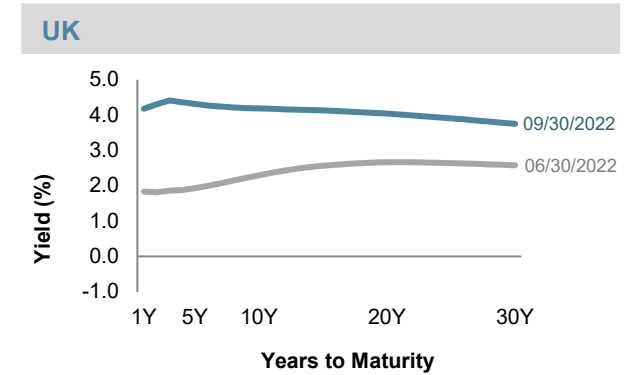
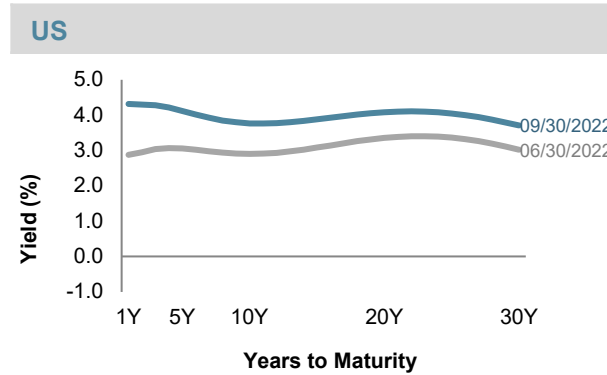
# Global Fixed Income

## Third quarter 2022 yield curves

Interest rates generally increased within global developed markets for the quarter.

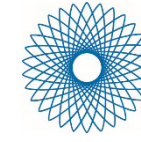
Realized term premiums were negative in global developed markets.

In Japan, short-term nominal interest rates remained negative. In Canada, the short-term segment of the yield curve inverted.



### Changes in Yields (bps) since 6/30/2022

	1Y	5Y	10Y	20Y	30Y
US	143.7	106.4	86.3	72.8	68.6
UK	235.1	238.0	188.6	137.8	117.5
Germany	128.0	88.7	73.9	53.5	50.9
Japan	-1.1	4.4	2.6	12.1	15.7
Canada	90.6	18.6	-4.1	-0.6	-3.5
Australia	81.1	34.8	23.4	27.6	22.6



# Impact of Diversification

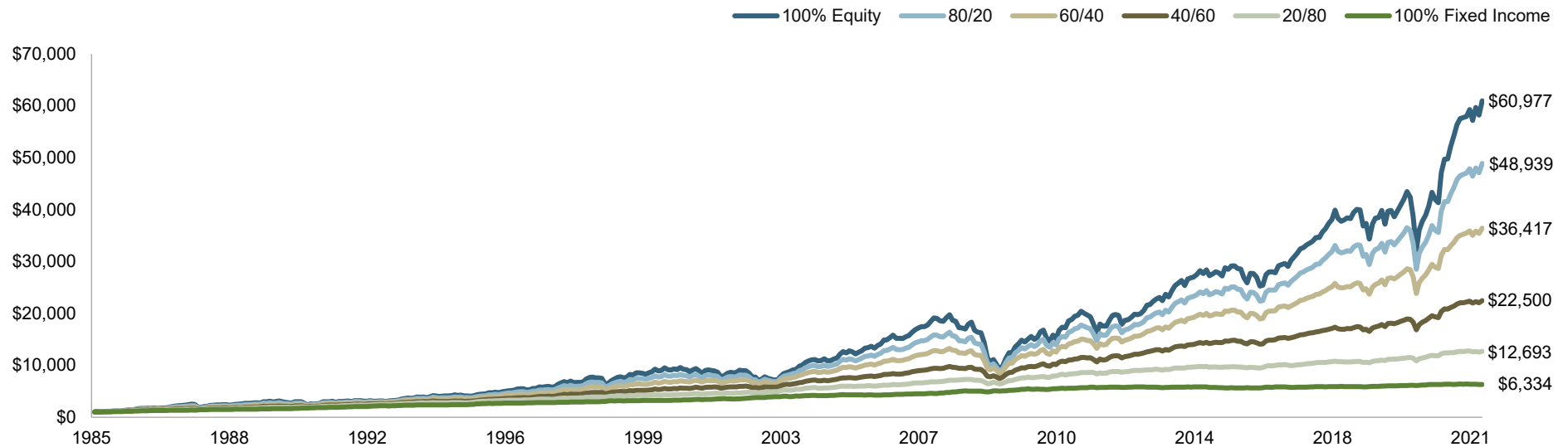
As of December 31, 2021

These indices illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Period Returns (%)

Dimensional Core Plus Wealth Index Model	* Annualized					10-Year STDEV <sup>1</sup>
	3 Month	1 Year	3 Years*	5 Years*	10 Years*	
100% Equity	6.61	22.63	21.12	14.57	13.24	14.11
80/20	5.30	17.70	18.49	12.90	11.94	11.76
60/40	3.86	12.63	15.37	10.82	9.99	9.07
40/60	2.22	7.79	10.82	7.75	7.28	6.13
20/80	0.55	2.10	6.40	4.89	4.05	3.71
100% Fixed Income	-0.51	-0.93	2.20	1.98	0.97	1.73

## Growth of Wealth: The Relationship Between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio. **Diversification does not eliminate the risk of market loss. For illustrative purposes only. Past performance is no guarantee of future results.** The performance reflects the growth of a hypothetical \$1,000. Assumes all models have been rebalanced monthly. See appendix for allocation information. All performance results are based on performance of indexes with model/back-tested asset allocations; the performance was achieved with the benefit of hindsight; it does not represent actual investment strategies. The index models are unmanaged and the model's performance does not reflect advisory fees or other expenses associated with the management of an actual portfolio. In particular, Model performance may not reflect the impact that economic and market factors may have had on the advisor's decision making if the advisor were actually managing client money. The models are not recommendations for an actual allocation. Indices are not available for direct investment. Backtested performance results assume the reinvestment of dividends and capital gains. Sources: Dimensional Fund Advisors LP for Dimensional Indices. Copyright 2022 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# What Drives Investment Returns? Start with Ingenuity.

Third quarter 2022

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A recent news item reported that Frederick Smith intended to step down as Chairman and Chief Executive Officer of FedEx Corp., the largest air freight firm in the world.

As a Yale undergraduate in 1965, Smith wrote a term paper for his economics course outlining an overnight air delivery service for urgently needed items such as medicines or computer parts. His professor was not much impressed with the paper, but after a stint in the Air Force, Smith sought to put his classroom idea into practice. He founded Federal Express (now FedEx) in 1971, and one evening in April 1973, 14 Dassault Falcon jets took off from Memphis airport with 186 packages destined for 25 cities.

In retrospect, it was not an auspicious time to launch a new venture requiring expensive aircraft consuming large quantities of jet fuel. Oil prices rose sharply later that year following the Arab states' oil embargo, and the US economy fell into a deep recession. Most airlines struggled during the 1970s, and Federal Express was no exception.

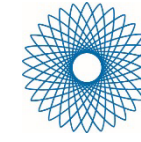
But Smith's idea found favor with customers, and 49 years after its initial deliveries, the firm is a global colossus with over 650 aircraft, including 42 Boeing 777s—each of which can fly more cargo than 100 Falcons. Although it took over two years to turn its first profit, FedEx became the first start-up in American history to generate over \$1 billion in revenue in

less than 10 years without relying on mergers or acquisitions. The journey has proved rewarding for investors as well—100 shares purchased at the initial offering price of \$24 in 1978 has mushroomed to 3,200 shares worth over \$718,000 as of May 31, 2022.<sup>1</sup>

Fred Smith's idea is just one example of ingenuity that humans have exhibited for centuries. Sticks and stones led to hammers and spears, the wheel and axle, the steam engine, and eventually semiconductors and jet aircraft. The invention of writing made it possible to store and hand down information from one generation to the next, enabling ingenuity to compound into an ever-increasing body of knowledge. Although we often associate innovation with clever new technology, some remarkable developments have required little more than astute powers of observation. The curse of smallpox, for example, has afflicted humans with death or disfigurement for thousands of years. English doctor Edward Jenner noticed that milkmaids who had previously experienced cowpox did not catch smallpox, and in 1796, he took material from a milkmaid's cowpox sore and inoculated James Phipps, the nine-year-old son of his gardener. Later exposed to the virus, Phipps never developed smallpox, and Jenner published a treatise on vaccination in 1801. Smallpox vaccines gradually eliminated the disease in countries around the world, and the last known case was reported in Somalia in 1977.

1. Stock split information sourced from FedEx investor relations website. Stock price information provided by Bloomberg. This is not taking into account cash dividends or any reinvestment.





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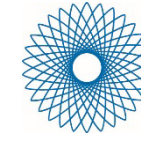
(continued from page 16)

One innovation often paves the way for others:

- Charles Lindbergh took off from Long Island for his historic transatlantic flight to Paris on May 20, 1927. That same day, J. Willard Marriott opened a nine-stool lunch counter serving cold A&W root beer in Washington, D.C. Ten years later he began to supply box lunches to airlines flying from nearby Hoover airport and 20 years later opened the world's first motor hotel in Arlington, Virginia. Today, Marriott is the world's leading travel firm, with over 8,000 hotel properties in 139 countries.
- The now-ubiquitous microwave oven can trace its roots to a happy accident. While working on radar equipment in 1945 for Massachusetts-based Raytheon, electronics engineer Percy Spencer noticed that the chocolate bar in his pocket had suddenly melted. His curiosity led to the introduction of commercial-grade water-cooled microwave ovens in 1947 costing thousands and ultimately to countertop units available today for \$99.
- Frustrated by lengthy delays associated with loading and unloading cargo ships, trucking firm owner Malcolm McLean launched a shipping service in 1956 using standardized steel containers of his own design. Met with great skepticism when first introduced, his idea for theftproof stackable cargo boxes eventually transformed the global shipping industry—and world trade—by slashing dockside loading costs over 90%.
- On June 26, 1974, cashier Sharon Buchanan inaugurated the era of barcode inventory tracking when she scanned a pack of Juicy Fruit gum bearing a Universal Product Code at Marsh Supermarket in Troy, Ohio. Barcode scanners eliminated the drudgery and inevitable mistakes associated with manual entry by checkout clerks and provided store managers with powerful tools to track sales trends. As retailers such as Home Depot, Ross Stores, and Walmart expanded throughout the country in recent decades, barcode technology played a key role in matching inventory with local preferences at each location.
- In March 2022, a 20-year-old woman born with a small and misshapen right ear received a 3D-printed ear implant made from her own cells and shaped to precisely match her other ear. Although experimental, the procedure represented a significant advance in tissue engineering and could eventually lead to artificial organs such as lungs or kidneys.

The benefits of innovation are widely dispersed throughout the economy, often in unpredictable ways. Apple Inc. became one of the world's most valuable companies based on its clever marriage of the computer and the telephone; both iPhone users and Apple shareholders reaped substantial rewards.

On the other hand, suppose your fairy godmother had told you in 1935, at the dawn of commercial air travel, that this tiny sector of the



# What Drives Investment Returns? Start with Ingenuity.

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economy would eventually become a gigantic industry with millions of passengers flying every year—including some flying from breakfast in New York to Los Angeles for dinner. What would your prediction be for industry pioneers such as TWA or Pan American? Most likely, bountiful prosperity and rewarding stock market performance. The millions of passengers materialized. The profits did not. Both firms went bankrupt. So innovation itself does not ensure prosperity in every case.

That's why it makes sense to diversify. Investors are often tempted to focus their attention on firms that appear poised to benefit from innovation. But it's difficult to predict which ideas will prove successful, and even if we could, it's unclear which firms will benefit and to what extent. Software giant Microsoft has been a big winner for investors, with the share value soaring more than 100-fold over the 30-year period

ending May 31, 2022. Discount retailer Ross Stores proved even more rewarding, as the stock price multiplied over 189 times during the same period. One firm developed powerful computer technology and the other applied it.

Civilization is a history of innovation—curious minds seeking to improve upon existing ways of meeting mankind's wants and needs. Public securities markets are just one example of such creativity, and they have a history of rewarding investors for the capital they supply to fund such innovation. But a significant fraction of the wealth created in public equity markets typically comes from only a small number of firms; therefore, we believe owning a broad universe of stocks is the most effective way to participate in the rewards of ingenuity and innovation, wherever and whenever it takes place.

**Investments involve risks. The investment return and principal value of an investment may fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Past performance is not a guarantee of future results. There is no guarantee strategies will be successful.**

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