



The Edgewood Large Cap Growth Composite was down -9.4% in the third quarter of 2022 and has declined -45.3% for the first three quarters of the year, net of fees. In comparison, the S&P 500 Total Return Index was down -4.9% and -23.9% while the Russell 1000 Growth Index was down -3.6% and -30.7% for the same periods.

These are staggering numbers. The S&P 500 reported three consecutive quarters of decline this year which the Index has not seen since 2009<sup>(1)</sup>. In addition, almost all investment categories are down for the year. Equities have suffered all year, bonds have declined as interest rates rose, commodities including oil have declined from their highs early in the year and gold has declined 8.7% even in the face of high inflation.

After a strong +10.9% rally in portfolio performance during July that exceeded the 9.2% jump in the S&P 500 benchmark, markets returned to awful carnage. The Fed made clear it would continue to ratchet-up interest rates to tame stubborn inflation. Investors are retreating from fighting the Fed until they see inflation numbers subdued, which would portend a potential end in rate hikes.

The underlying economic and business data is mixed, but seemingly mostly headed down. They include: softening home sales and prices; a crash in construction lumber prices, going from \$1,200 in January to \$410<sup>(2)</sup> now; rapidly rising mortgage rates, with the 30-year rate more than doubling from 3% to 6.7% today. A drop in US gasoline prices from over \$5/gallon to the mid-\$3 range, as purchases dropped 5% to 9% this summer and down nearly 19% compared to pre-pandemic levels<sup>(3)</sup>, heavy retail inventory liquidations and discounts to move merchandise, and dropping PMI (purchasing manager Indices) indicators for manufacturing and services should all mean downward pressure on prices. These examples indicate a moderating trend.

That said, strong labor markets and over 5% increases in average hourly earnings are proving resilient. Until these trends weaken, markets should not expect much respite from the Fed. Time will tell, but the Fed's tough medicine, coupled with drooping consumer and business sentiment, should lead to more modest inflation numbers as we proceed into 2023.

Economic prognostications are always uncertain. However, one has to believe that with European and Chinese economies slowing and many indicators flashing the same in the US, that a reduction in inflation numbers will become evident in the next few months. The Fed will likely stop hiking rates at that time. The financial markets should react positively when they smell that change in policy.

In the meantime, we believe the portfolio companies have solid growth prospects in a slowing, higher interest rate environment. With time, their profits could drive stock prices.

(1) <https://tradingeconomics.com/united-states/stock-market>

(2) <https://www.nasdaq.com/market-activity/commodities/lbs>

(3) <https://blog.opisnet.com/summer-gasoline-demand-struggled>

Edgewood Management LLC

October 6, 2022

Edgewood Management LLC: Large Cap Growth Composite				
Ending September 30, 2022				
	1 Year	3 Year Annualized	5 Year Annualized	10 Year Annualized
<b>Edgewood Large Cap Growth Composite</b>	-41.97%	3.52%	7.82%	13.73%
<b>S&amp;P 500 (TR) Index</b>	-14.61%	10.22%	10.44%	12.79%
<b>Russell 1000 Growth Index</b>	-24.60%	11.75%	12.59%	14.69%

Note: Returns are shown in US dollars. Composite returns are net of fees.

Edgewood Management LLC is a registered investment adviser specializing in growth oriented investment management. The Edgewood Large Cap Growth Composite is comprised of individual and institutional accounts that invest in Edgewood’s Large Cap Model of generally 22 large capitalization growth companies chosen by using fundamental analysis and an internal valuation discipline. The composite returns are benchmarked to the Standard & Poor’s 500 Index (“S&P 500”) and the Russell 1000 Growth Index (“R1000 Growth”). The S&P 500 is an unmanaged index with no expenses which covers 500 industrial, utility, transportation and financial companies of US markets. It is a capitalization-weighted index calculated on a total return basis with dividends reinvested. The R1000 Growth measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates and dividends are reinvested.

Edgewood Management LLC claims compliance with the Global Investment Performance Standards (GIPS®). Past performance is no guarantee of future results. Performance results reflect the reinvestment of dividends and other earnings. Performance results are expressed and calculated in U.S. dollars. To receive a list of composite descriptions of Edgewood Management LLC and/or a GIPS Report that complies with the GIPS standards, contact Kitty McBride at 212-652-9100, or write to Edgewood Management LLC / 600 Steamboat Road / Suite 103 / Greenwich, CT 06830 or [KMcBride@Edgewood.com](mailto:KMcBride@Edgewood.com).

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