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MARKET VIEW WEEKLY

Philip Blancato, Chief Market Strategist, Advisor Group

ECONOMIC REVIEW[1]

- As expected, the Federal Reserve (the Fed) raised interest rates by another 0.75%, or 75 basis points, the fourth consecutive increase of that size.
    - This latest move brings the central bank's benchmark federal-funds rate to a target range of 3.75 – 4%.
- Further details in the policy statement and press conference shed some light on how the Fed is thinking about the future path of rate hikes, which Chairman Powell outlined with three questions:
    - How fast, how high, and how long?
- After first acknowledging the speed with which the Fed has raised rates already, Chair Powell hinted at the possibility of a smaller increase in December, emphasizing that the committee "will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments."
    - But also clarified, "it is very premature to be thinking about pausing," ongoing rate hikes should be the expectation, and "we think we have a ways to go."
- Additional economic data released since the September meeting showing the labor market remains extremely tight and inflation measures are broadening out into the services sector drove the Chairman to recognize that the path to a soft landing has narrowed and the probability of a recession has grown.
    - Job openings increased to 10.7 million, well above consensus expectation of 9.8 and 10.3 mil last month.
    - Non-farm payrolls increased by 261,000, again well above expectations of 205,000.
    - Unemployment rate ticked up marginally to 3.7% from 3.5%.

How do Monetary Policy and the Labor Market impact you?

- Something for both the Hawks and the Doves as "higher for longer" was the overarching message, but consideration of the cumulative and lagged effect of monetary policy suggests that it makes sense to start raising by smaller increments.
    - "The inflation picture has become more and more challenging over the course of this year, without question," Chair Powell said. "To the extent rates have to go higher and stay higher for longer, it becomes harder to see the path" that avoids a recession.

A LOOK FORWARD[1]

- Both investors and an entire nation of voters will be watching the results of a very important midterm election cycle as Americans head to the polls on Tuesday.
- The October Consumer Price Index (CPI) Report releases on Thursday, and market participants are currently forecasting a marginal decline in the headline figure to 7.9% and a relatively unchanged Core measure of 6.5%.

How does the CPI report impact you?

- While this inflation report will provide a critical look at pricing data during the all-important holiday shopping season, the Fed will see another CPI reading on December 13th, just a day before their final meeting and policy decision in 2022.

MARKET UPDATE

Market Index Returns as of 11/4/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	-3.31%	5.30%	-19.83%	-18.47%	8.81%	9.75%
NASDAQ Composite TR USD	-5.62%	-0.88%	-32.60%	-33.91%	8.35%	10.14%
DJ Industrial Average TR USD	-1.38%	12.93%	-9.33%	-8.97%	7.87%	8.96%
Russell Mid Cap TR USD	-2.04%	7.03%	-18.94%	-20.15%	6.73%	7.55%
Russell 2000 TR USD	-2.53%	8.21%	-18.95%	-25.17%	5.31%	5.13%
MSCI EAFE NR USD	1.24%	6.61%	-22.27%	-23.36%	-1.24%	0.08%
MSCI EM NR USD	4.68%	1.12%	-26.34%	-27.99%	-3.94%	-2.39%
Bloomberg US Agg Bond TR USD	-0.78%	-1.66%	-16.02%	-16.53%	-3.64%	-0.64%
Bloomberg US Corporate High Yield TR USD	-1.23%	1.77%	-13.24%	-13.01%	-0.06%	1.85%
Bloomberg Global Aggregate TR USD	-0.94%	-0.99%	-20.69%	-21.58%	-5.98%	-2.42%

OBSERVATIONS

- U.S. equities had a rough week dealing with the market turbulence around the Fed meeting, first climbing in response to a fairly dovish statement then collapsing on a very hawkish press conference, ultimately declining -3.31% on the week.
- Among style boxes domestically, all were negative, with the tech-heavy Nasdaq falling -5.61%.
- Developed international markets were up on week, +1.24%, though easily outpaced by Emerging Market stocks, which returned +4.68%.
- U.S. bonds declined slightly, with the Bloomberg Barclays U.S. Aggregate Bond index down -0.78%.

BY THE NUMBERS

- Daylight Saving Time Ended on Sunday: Millions of Americans want to abandon the time change we endure twice each year, disrupting our circadian rhythms and creating confusion. More than a third of U.S. states now back a permanent shift to daylight saving time. If that happens, it would be a final victory for a plan that businesses have praised for more than 100 years. Every state except Hawaii and Arizona currently observes daylight saving time. But each year, more states say it's time to stop futzing with the clock and embrace daylight saving time year-round. For 2022, daylight saving time officially ends at 2 a.m. on Sunday, Nov. 6.[2]

- Chinese Property Bonds Set Record Lows as Investors Lose Faith: The bottom has fallen out of the market for bonds from Chinese property developers. The dollar bond prices of real-estate companies in China have plummeted to new lows, with some trading below 10 cents on the dollar. That reflects a loss of investor confidence in the sector, following a series of bond defaults that have shortchanged international investors, and an unrelenting downturn in the country's property market.[3]

- Oil Notches First Monthly Gain Since May: Oil prices just ended four consecutive months of declines. The U.S. benchmark for crude oil prices, West Texas Intermediate, settled Monday at $86.53 a barrel, up nearly 9% since the end of September. That marks its first monthly gain since May. Prices have been lifted by an OPEC production cut announced early in the month as well as a weakening dollar. Oil is traded in the U.S. currency and becomes cheaper outside the U.S. when the dollar falls, boosting demand. The WSJ Dollar Index has slipped by about 9% this month.[4]

Economic Definitions

Job Openings – JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

CPI (Headline & Core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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[1] Data Obtained from Bloomberg as of 11/4/2022
[2] What you need to know about the history of daylight-saving time : NPR
[3] Chinese Property Bonds Set Record Lows as Investors Lose Faith - WSJ
[4] Oil Notches First Monthly Gain Since May (wsj.com)