

# MARKET VIEW WEEKLY

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## ECONOMIC REVIEW<sup>1</sup>

- The Producer Price Index (PPI) came in softer than expected, giving us another indicator inflation may have peaked.
  - On a month-over-month basis PPI increased 0.2%, lower than the expected reading of 0.4% and down from the previous month's reading of 0.4%.
  - On a year-over-year basis PPI increased 8.0%, lower than the expected reading of 8.3% and down from the previous month's reading of 8.5%.
- Retail Sales for the month of October came in stronger than expected.
  - On a year-over-year basis, retail sales increased 1.3%, better than the expected reading of 1.0% and up from the previous month's reading of 0.0%.
- October Housing Starts fell -4.2% to 1,425K units, marginally above the consensus of 1,410K units.
- October Building Permits dropped -2.4% to 1,526K permits, also a bit above the consensus of 1,512K permits.

### How does PPI, Retail Sales and Housing Data Impact You?

- Another softer-than-expected inflation reading may mean that the Federal Reserve (Fed) could slow up on its rate hiking path in the months to come. This would be a welcome sign for markets and may likely spark a turnaround in equities and bonds.
- The consumer accounts for 70% of economic activity, and for this reason, zero percent growth in retail sales last month was concerning. The better-than-expected increase for October gives us confidence that the consumer will continue to support the economy as we move into the largest spending months of the year.
- October's fall in Housing Starts adds to the weakness, having plunged 21% from their recent peak in April. Demand for homes has collapsed in the wake of the surge in borrowing costs, and most homebuilders are now set on substantial excess inventory. Mortgage rates have now peaked, however, so demand is unlikely to fall much further.
  - The bigger picture is that home construction, and sales have already largely adjusted to the collapse in demand, but prices have much further to fall; we look for a 15-20% decline in home prices over the next year.



## A LOOK FORWARD<sup>1</sup>

- We will have a shortened week for data, with markets closing for the Thanksgiving Holiday Thursday and an abbreviated session on Friday.
- However, on Wednesday, we will still get two important economic indicators, the Michigan Consumer Sentiment Index reading.

### How does the consumer sentiment reading impact you?

- Overall consumer sentiment has been at a standstill as investors continue to digest higher inflation and the potential of a recession. While it may not be reflected in this month's reading, lower inflation, and a rallying market (markets are well in the positive for the third quarter) may accelerate this sentiment reading moving into 2023.



## MARKET UPDATE

Market Index Returns as of 11/18/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	-0.61%	10.86%	-15.60%	-14.24%	10.10%	10.93%
NASDAQ Composite TR USD	-1.51%	5.55%	-28.23%	-30.03%	10.03%	11.45%
DJ Industrial Average TR USD	0.11%	17.82%	-5.41%	-3.25%	8.75%	10.01%
Russell Mid Cap TR USD	-1.59%	11.97%	-15.21%	-15.68%	7.83%	8.38%
Russell 2000 TR USD	-1.70%	11.31%	-16.63%	-19.98%	6.30%	5.74%
MSCI EAFE NR USD	0.26%	15.89%	-15.51%	-15.74%	1.42%	1.96%
MSCI EM NR USD	0.79%	7.77%	-21.50%	-23.59%	-1.45%	-1.32%
Bloomberg US Agg Bond TR USD	0.48%	1.07%	-13.69%	-13.64%	-2.92%	-0.07%
Bloomberg US Corporate High Yield TR USD	0.70%	3.71%	-11.58%	-10.78%	0.68%	2.39%
Bloomberg Global Aggregate TR USD	0.51%	3.36%	-17.20%	-17.36%	-4.70%	-1.70%



## OBSERVATIONS

- U.S. equities returned to their volatile state last week, however, value stocks as represented by the Dow Jones Industrial Average Index outpaced growth stocks, represented by the NASDAQ Composite Index.
- Among style boxes domestically, small, and mid-cap stocks lagged their larger cap peers.
- Developed international markets bucked the trend and were positive for the week, returning +0.26% and +0.79% respectively.
- Bonds were positive on the week, with the Bloomberg Barclays Global Aggregate Bond index +0.48.



## BY THE NUMBERS

- **World Cup Costs:** This has turned into the most expensive World Cup ever by a huge margin. In fact, it's costing Qatar over four and a half times the total cost of the prior 8 World Cups combined, as they have built 7 new stadiums, a new airport, a new metro system, 100 hotels, multiple new highways. Qatar is expected to spend \$220 billion to host the world cup. The next costliest world cup was in 2018 when Russia shelled out \$11.6 billion.<sup>2</sup>
- **Dimming the Lights to Provide Europe Gas:** The Egyptian government started this summer to direct the scaling back of domestic electricity consumption, reducing lighting in some streets, squares, and other public areas, as well as in shops and government buildings. The aim is to try to lower the amount of natural gas needed for generating electricity by 15% and ship that surplus to buyers in Europe, who are paying top dollar for liquefied natural gas.<sup>3</sup>
- **Paris Challenging Britain Stock Market:** Paris is challenging London's lead as the home to Europe's biggest stock market, eating away at Britain's position after Brexit as the continent's most important financial center. The market value of all the companies listed in the French capital has soared from \$1.8tn at the start of 2016 to \$2.83tn, closing in on the value of London shares at \$2.89tn, according to Refinitiv.<sup>4</sup>

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## Economic Definitions

**Producer Prices - PPI (headline and core):** Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e., prices received by domestic producers for their outputs either on the domestic or foreign market).

**Retail Sales:** Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

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

**Building Permits:** This concept tracks the number of permits that have been issued for new construction, additions to pre-existing structures or major renovations. These statistics are based on the number of construction permits approved.

**Housing Starts:** Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

**University of Michigan Consumer Sentiment Index:** Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collect data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

## 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.

## Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data Obtained from Bloomberg as of 11/18/2022

<sup>2</sup> <https://lplresearch.com/2022/11/16/world-cup-onomics-2022/>

<sup>3</sup> [https://www.wsj.com/articles/egypt-dims-the-lights-in-cairo-to-free-up-more-gas-for-europe-11668681057?mod=economy\\_lead\\_pos3](https://www.wsj.com/articles/egypt-dims-the-lights-in-cairo-to-free-up-more-gas-for-europe-11668681057?mod=economy_lead_pos3)

<sup>4</sup> <https://www.ft.com/content/db5d516a-4b35-4e85-8b02-4dd73b48e0b>