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## Market Stats & Commentary

**Market Vital Signs as of 10/31/2022**

| *Stock Indexes* | September | YTD | 1 Year |
|---|---|---|---|
| S&P 500 | 8.10% | -17.70% | -14.61% |
| Dow Jones Industrial Average | 14.07% | -8.42% | -6.74% |
| NASDAQ Composite | 3.90% | -29.77% | -29.10% |
| Russell Mid Cap Index | 8.88% | -17.55% | -17.17% |
| Russell 2000 Small Cap Index | 11.01% | -16.86% | -18.54% |
| MSCI EAFE Developed Int'l Index | 5.38% | -23.17% | -23.00% |
| MSCI Emerging Markets Index | -3.10% | -29.42% | -31.03% |
| *Bond Indexes* | | | |
| BBgBarc US Aggregate Bond Index | -1.30% | -15.72% | -15.68% |
| BBgBarc US Corp High Yield Bond Index | 2.63% | -12.50% | -11.72% |
| *Interest Rates* | 10/31/22 | 12/31/21 | 10/31/2021 |
| Fed Funds Target Range | 3% to 3.25% | 0.00% | 0.00% |
| 10 Yr U.S. Treasury Rate | 4.07% | 1.51% | 1.55% |

*Data courtesy of Raymond James*

As you can see, October was a really good month for stocks across the board. The only problem is that September was a really, really bad month. So instead of making positive headway the market was mostly making up for an abnormally bad prior month. But, up is up and I will gladly take it.

The one exception to the positive tone was the emerging market index. It was decidedly negative, driven by the re-election and consolidation of power of Xi Jinping. The escorting out of former President Hu and the tone of Xi's speech made headlines and will lead to some investor caution on China's economic growth prospects over the coming five years.

Bonds were mixed on the month, with the aggregate bond index being hit once again by higher interest rates (more on that in a bit) while high yield bonds rallied in sympathy with stocks.

November and December are typically good months for stocks, so history is on our side for the rest of the year. However, history matters a lot less than interest rates right now.

### The Fed Statement vs Powell's Press Conference

Federal Reserve meetings and subsequent interest rate decisions have been accompanied by a statement on the rationale behind every decision for many years now. However, the press conference immediately after is a relatively new thing. This started in April 2011 as a way to add transparency into the process and thinking of the Federal Open Market Committee (FOMC). It tends to add depth and nuance to the official statement and markets hang on every word, just as every single word of the written statement is parsed for insights. Most of the time the Fed Chairperson's comments are completely in step with the statement. Last week's press conference, not so much.

A story in the Wall Street Journal the week before (the journalist is the unofficial Fed leak conduit) implied that the Fed would raise the overnight rate by .75% and message to the market that the magnitude and pace of rate hikes would slow after November. The Fed did indeed raise the overnight rate by .75% (widely expected) and the statement did include language that would give the indication of slowing down the pace going forward. This one in particular made both the stock and bond markets happy:

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"In determining the pace of future increases in the target range, 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"

Markets rallied and there seemed to be light at the end of the tunnel. Then the press conference started and Fed Chair Powell made comments like this:

"We think there is some ground to cover before we meet that test. That's why we say ongoing rate increases will be appropriate. As I mentioned, incoming data between the meetings, both the strong labor market report but particularly the CPI report suggest to me that we may move to higher levels than we thought at the time of the September meeting. That level is very uncertain, though. I would say we're going to find it over time."

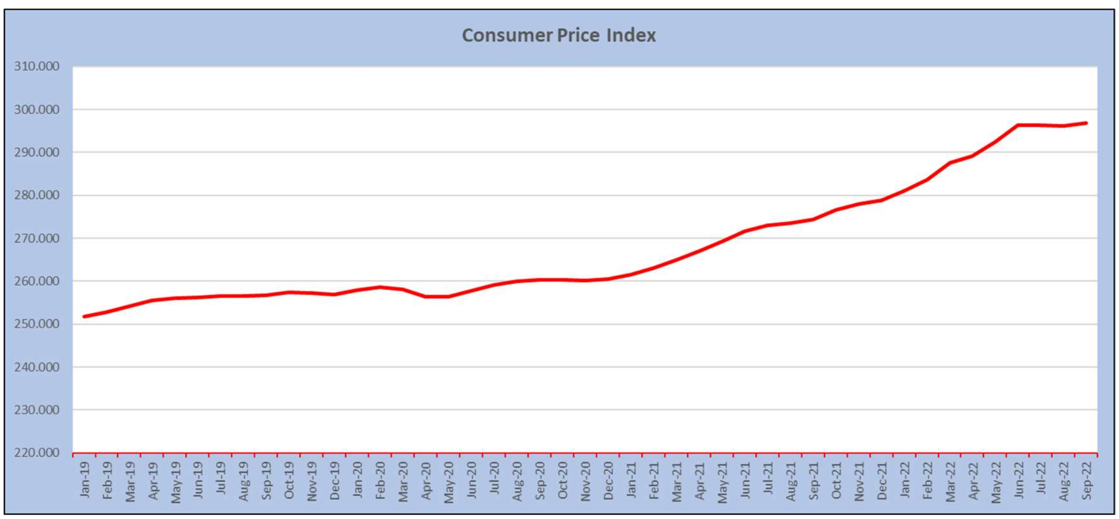
"Our message should be -- what I'm trying to do is make sure our message is clear, which is we think we have a ways to go. We have some ground to cover with interest rates before we get to that level of interest rates we think are sufficiently restrictive. Putting that in a statement and identifying that as a goal is an important step."

"When (people) hear lags, they think about a pause. It's very premature in my view to be thinking about or talking about pausing our rate hike. We have a ways to go."

Markets didn't like any of these things and by the end of the press conference both stocks and bonds had reversed from sizable gains and were on track to finish the day with losses greater than 1% across the board.

As I finish writing this on Monday November 7, the futures market is showing a 71% probability of a .50% hike at the beginning of December and a 54% probability of a .25% hike on Feb 1. These numbers change daily but if they hold true it will provide some much needed relief for both stocks and bonds.

## Believe It or Not, Inflation is Flattening Out




Data courtesy of the Bureau of Labor Statistics

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2019** | 251.712 | 252.776 | 254.202 | 255.548 | 256.092 | 256.143 | 256.571 | 256.558 | 256.759 | 257.346 | 257.208 | 256.974 |
| **2020** | 257.971 | 258.678 | 258.115 | 256.389 | 256.394 | 257.797 | 259.101 | 259.918 | 260.280 | 260.388 | 260.229 | 260.474 |
| **2021** | 261.582 | 263.014 | 264.877 | 267.054 | 269.195 | 271.696 | 273.003 | 273.567 | 274.310 | 276.589 | 277.948 | 278.802 |
| **2022** | 281.148 | 283.716 | 287.504 | 289.109 | 292.296 | 296.311 | 296.276 | 296.171 | 296.808 | | | |

The year over year CPI numbers are still climbing but the actual index numbers have definitely flattened out. While most of the focus is on the YOY or MOM *percentage* increase, I think it can be helpful to chart out the actual index level. You can see trends that might not be immediately visible in the percentage numbers. Notice that the **actual level of CPI has been quite flat over the last 4 months**. Over the last 4 months the index value has increased an average of .1243% per month. If you annualize that rate to next June the YOY CPI will be reading around 1.3%. I'm not making any CPI predictions for June of next year because that would be arrogant or foolish or maybe both. The numbers are, however, food for thought…

David

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## Disclosures, Disclaimers & Other Assorted Compliance Fun

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Investing involves risk and you may incur a profit or loss regardless of strategy selected. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

### Index Descriptions

S&P 500: Representing approximately 80% of the investable U.S. equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

Dow Jones Industrial Average Total Return: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

Russell Midcap: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 31% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of June 2, 2014, the index consists of 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI Emerging Market Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

Bloomberg Barclays U.S. Aggregate (BCAG): A representation of SEC-registered, taxable, and dollar denominated securities. The index covers the U.S. investment grade fixed rate bond market, with index components for asset-backed securities, government and corporate securities, and mortgage pass-through securities. Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features have at least one year to final maturity, and have an outstanding par value amount of at least $250 million.

Bloomberg Barclays U.S. Corporate High Yield: Covers the universe of fixed rate, non-investment grade debt which includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issue, dollar-denominated and non-convertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule), and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's, S&P, and Fitch. Also, must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.