November 2022 Market Update

Special points of interest:

- **Fed Chairman Jerome Powell recently confirmed a rally by signaling a slowdown in interest rate increases going forward.**
- **November's jobs report and revised Q3 GDP numbers are signs of ongoing economic resilience.**
- **Economic strength may translate into a higher Fed-directed end-point interest rate in 2023.**
- **If the Fed tips the economy into recession, we are likely to see earnings declines and further market volatility.**

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The Markets in November 2022

It was a November to remember in domestic markets. The Dow Jones Industrial Average and the S&P 500 index rose 5.7% and 5.4% respectively while the Nasdaq gained 4.4% for the month. On the last day of the month, Fed Chairman Jerome Powell confirmed a rally by signaling a slowdown in interest rate increases going forward, down from recent 75 basis point raises.

Still, this year's market damage continues to leave its mark. The S&P 500 index remains down 14% while the Nasdaq is lower by 27% in the year-to-date. At the same time, the yield curve has inverted to its most extreme level since 1981, which means that short term yields are higher than long-term yields (an inversion of the more normal scenario). As of Nov 23, yields on 10-year Treasuries were 0.78 percentage points lower than those on 2-year notes.

In the real economy, higher mortgage rates have significantly reduced sales of previously owned homes, down 5.9% in October from the prior month (and lower by 28.4% than October 2021!) while home prices have declined for four straight months. On a positive note, though, U.S. GDP for the 3rd quarter was revised to show 2.9% annualized growth vs. a prior reading of 2.6% and 10.3 million job openings still far outweigh the 6.1 million unemployed people seeking work in October. November's job report indicated that the U.S. added 263,000 jobs in the month and the unemployment rate held steady at 3.7% - signs of domestic economic resilience.

Job openings still far outweigh unemployment figures, but inflation remains a concern for the average household's finances.

The Look Ahead

Despite the prospect of slower future raises, it's important to note that the Fed continues to talk about raising interest rates into 2023. All eyes will now be on the end-point rate. Will it be around the 4.6% level forecast in September or something closer to 5% (which will weigh heavier on consumer spending and corporate earnings next year)? In fact, the next 'shoe to drop' in this environment may be corporate profits. Earnings forecasts for 2023 have begun revising downward, but they are still expected to grow 4% over this year (down from the 10% gain for next year expected this past April). Here's the issue, though: past recessions have seen double-digit profit declines, not modest increases. If earnings growth turns negative as we get into 2023, expect to see stock market declines resume.

Typically, the fourth quarter is a time of relatively stronger equity markets, and December will likely mirror this optimism, but I think we need to prepare for a hangover recession in early 2023 as the Fed's rate rises filter more into the economy. It's time to re-examine the amount of 'safety cash' in portfolios!

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