October 2022 Market Update

Special points of interest:

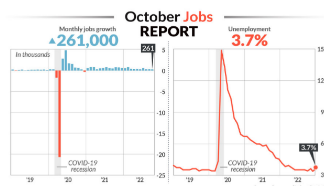
- **Equity markets rose strongly while bond markets fell—two different responses to the threat of rate increases and recession.**
- **The U.S. economy added over 260k jobs, but the unemployment rate rose slightly to 3.7%.**
- **Higher rates continue to filter into the broader economy—the average 30-year mortgage rate is now >7%.**
- **The fourth quarter is usually a time of stronger equity markets, but caution is warranted this time.**

Inside this issue:

The Markets in October 2022

Bear market rally or the start of a new bull market for stocks? This is the question on many investors' minds after a stunning October in the equity markets. For the month, the Dow Jones Industrial average rose a stunning 14%, its best month since 1976. The broader S&P 500 index increased a still-impressive 8%, while the tech-heavy Nasdaq eked out a more modest gain of 3.9%.

Monthly gains were widespread but uneven. Crude oil prices on the NY Mercantile Exchange were higher by 8.9% while gold prices fell 1.6% in the month. Bond prices generally fell, as the U.S. 10-year Treasury yield rose from 3.804% at the end of September to 4.077% at the end of October.



The U.S. economy added 261,000 jobs in the month, but the unemployment rate rose slightly to 3.7%. Both of these metrics are hotter than the Federal Reserve would like to see, and they predictably raised their benchmark rate by another 75 basis points earlier this week to a range of 3.75–4%. The bond market is now beginning to price in a terminal rate north of 5% sometime next year. This matters because the pace and endpoint of rate increases are driving business investment decisions and increasing the cost to borrow for both businesses and consumers. This increases the likelihood of an eventual Fed-induced recession.

The threat of recession still looms over financial markets and the global economy.

The Look Ahead

Investors' attention continues to be on the Fed and the all-consuming question: will higher interest rates successfully defuse inflation concerns without tipping the economy too harshly into recession? October's market results represented a view that the Fed is moving closer to a pivot on their rate policy, but after Fed comments this week, it's clear that we are not there yet. In the meantime, higher rates are starting to do real damage to the broader economy, starting with rate-sensitive areas such as housing. Mortgage rates continue to rise, with the average rate on a 30-year fixed mortgage increasing to 7.08% at the end of October according to Freddie Mac. Obviously, mortgage rates have a major influence on consumer housing decisions and related purchases.

Typically, the fourth quarter is a time of stronger equity markets as we head into the feel-good holiday season. I believe results will be positive but capped this time around, and I think we need to prepare for a hangover recession in early 2023 as the Fed's rate rises filter more into the economy. For me, high-quality dividend equities and fixed income will be focus areas this quarter.

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