

Weekly Market Recap

November 21, 2022

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500® Index	3,965	-0.7%	-16.8%
Dow Jones Industrial Average	33,746	0.0%	-7.1%
NASDAQ	11,146	-1.6%	-28.8%
Russell 2000® Index	1,850	-1.8%	-17.6%
MSCI EAFE Index	1,902	-0.9%	-18.6%
Ten-Year Treasury Yield	3.83%	0.0%	2.3%
Oil WTI ¹ (\$/bbl ²)	\$80.24	-9.8%	6.7%
Bonds ³	\$97.00	0.5%	-13.2%

¹WTI = West Texas Intermediate Oil. ²bbl = Barrel. ³Bonds are represented by the iShares U.S. Aggregate Bond ETF. Sources: Bloomberg L.P.; FactSet.

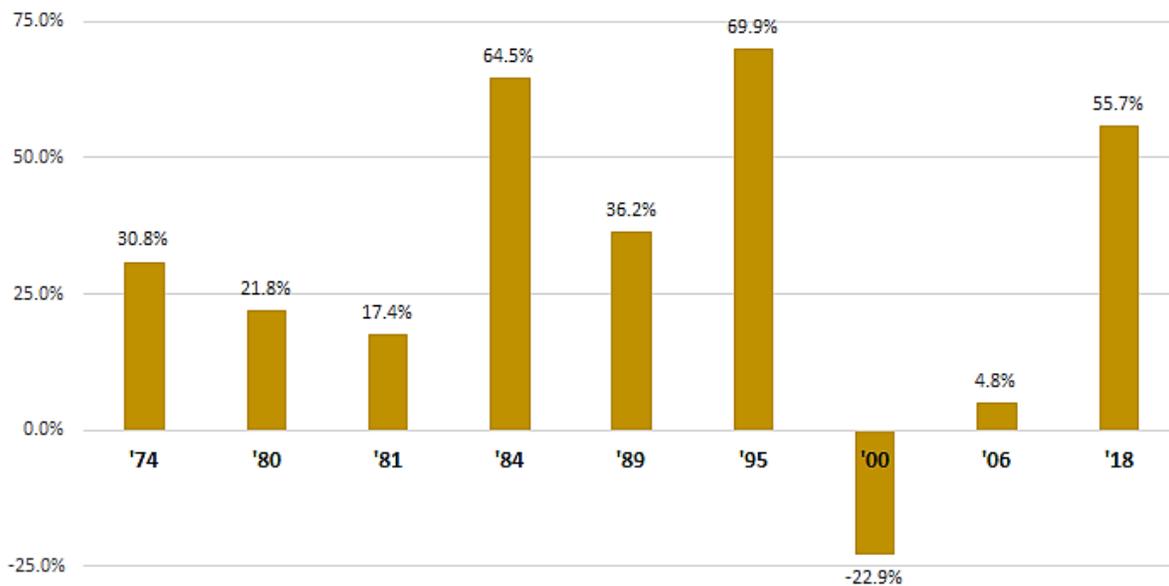
Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) fell -0.7% as several Federal Reserve (Fed) officials continued to push the ‘higher for longer’ narrative, which led to more risk off sentiment for equities. In contrast to the Fed’s narrative, the October Producer Price Index (PPI) report was softer than expected and provided support for the narrative that inflation has already peaked. Reuters said that recent softer inflation data, stretched consumer finances, and relatively contained layoffs suggest increased odds for a soft landing. Bank of America’s latest Global Fund Manager Survey showed cash levels at 6.2%, or just 0.1% below October’s 21-year high. Value/defensive stocks outperformed growth stocks. The ten-year yield rose only 1 basis point (bps) to 3.8%, but the yield curve inversion increased. Gold fell -0.8% and WTI dropped -9.8% (the worst weekly decline since June 2022).
- S&P 500 Index Sector Returns (Price Return):
 - Consumer staples (+1.7%), healthcare (+1.0%), and utilities (+0.8%) outperformed, as investors favored more defensive/value stocks.
 - Communication services (-0.1%) outperformed, led by telecom, internet, and social media stocks.
 - Industrials (-0.2%) outperformed, with strength in aerospace and defense and transports/logistics.
 - Technology (-0.9%) fell, led lower by high-growth software stocks.
 - Financials (-1.5%) fell, led lower by the banks.
 - Materials (-1.6%) fell, with weakness in precious metals companies.
 - Real estate investment trusts (REITs) (-1.8%) fell, led lower by office and cell towers.
 - Energy (-2.4%) underperformed, as the price of WTI fell -9.8%.
 - Consumer discretionary (-3.2%) underperformed, with weakness from **Amazon** (-6.6%), Tesla (-8.1%), travel stocks, home builders, and autos.

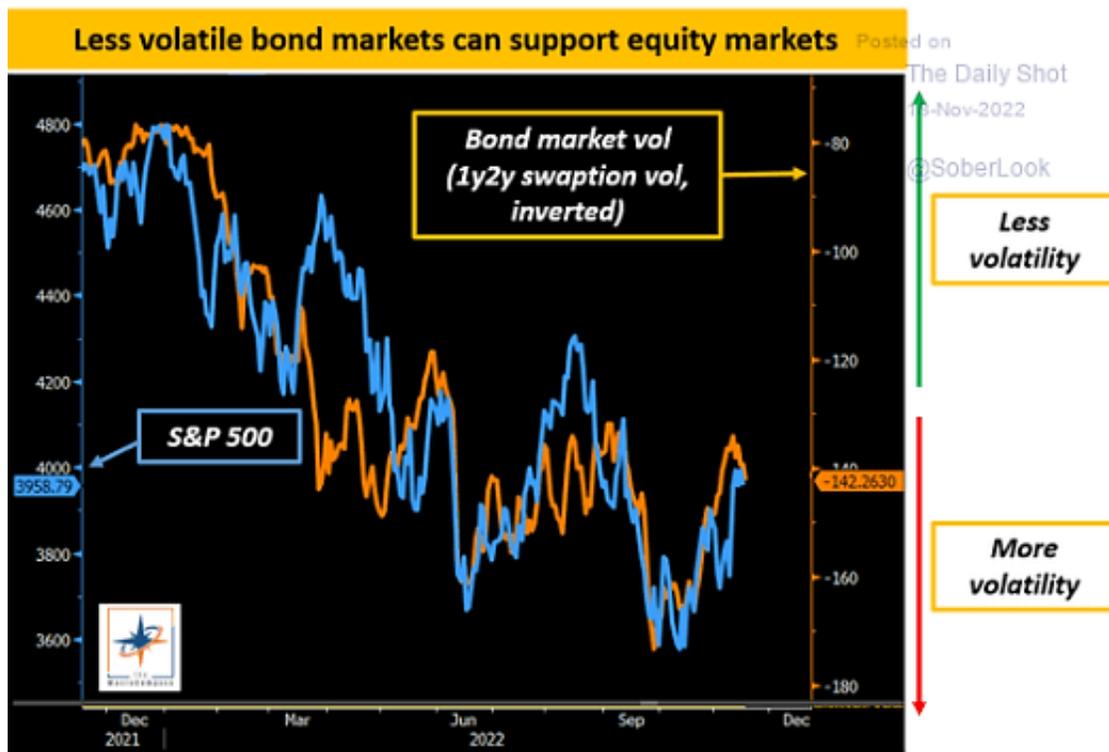
- The chart below suggests that equity returns are generally positive in the two years following the last Federal Reserve rate hike.

Stock market returns over the two years following the last Fed rate hike



Sources: Edward Jones; FactSet.

- Lower volatility for interest rates and bond markets can be a tailwind for equities.



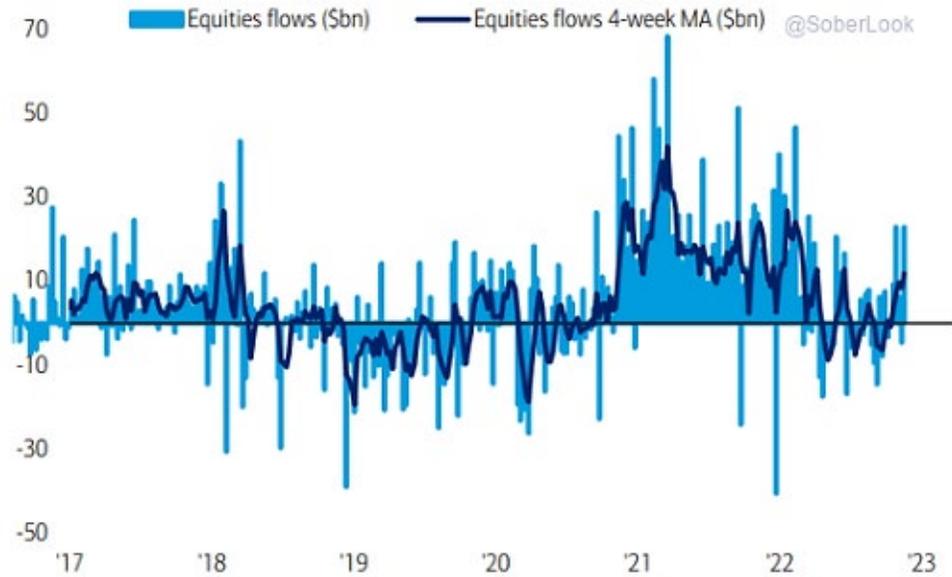
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- Fund flows into equities have increased in the past few weeks.

Chart 7: ...chase is on

Equities flows (weekly & 4-week moving average)

Posted on
The Daily Shot
18-Nov-2022



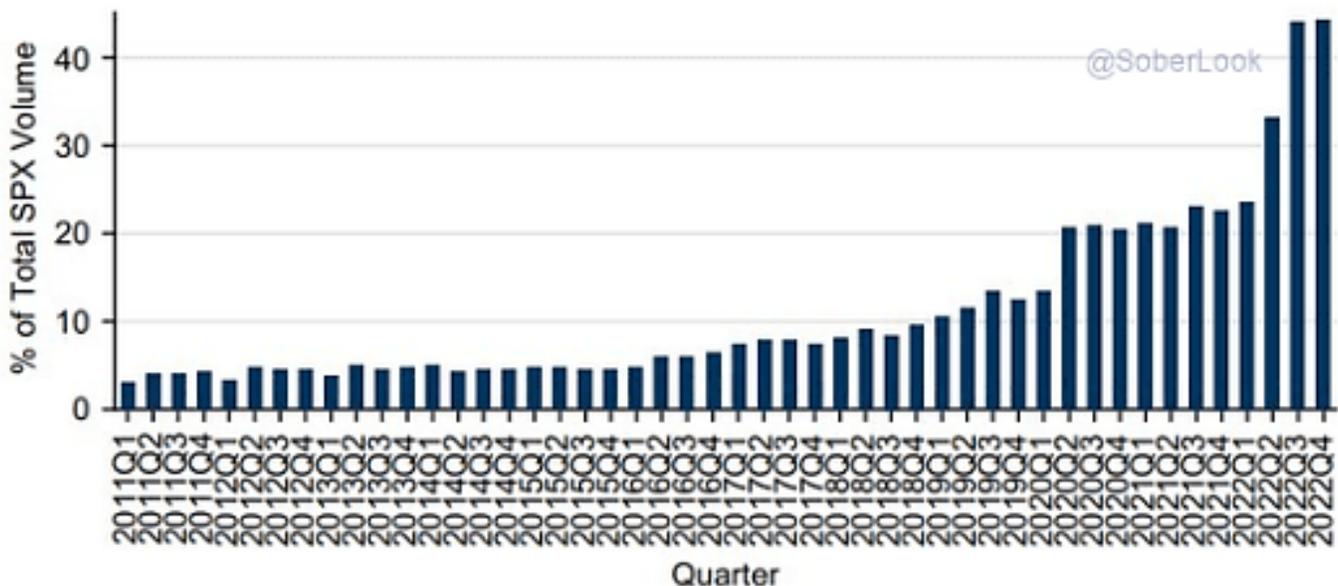
Source: BofA Global Investment Strategy, EPFR

Sources: BofA Global Investment Strategy; The Daily Shot. Data as of 11.18.2022.

- The volume share of short-term options has exploded.

% of S&P 500 listed volume expiring within 24 hours

The Daily Shot
18-Nov-2022

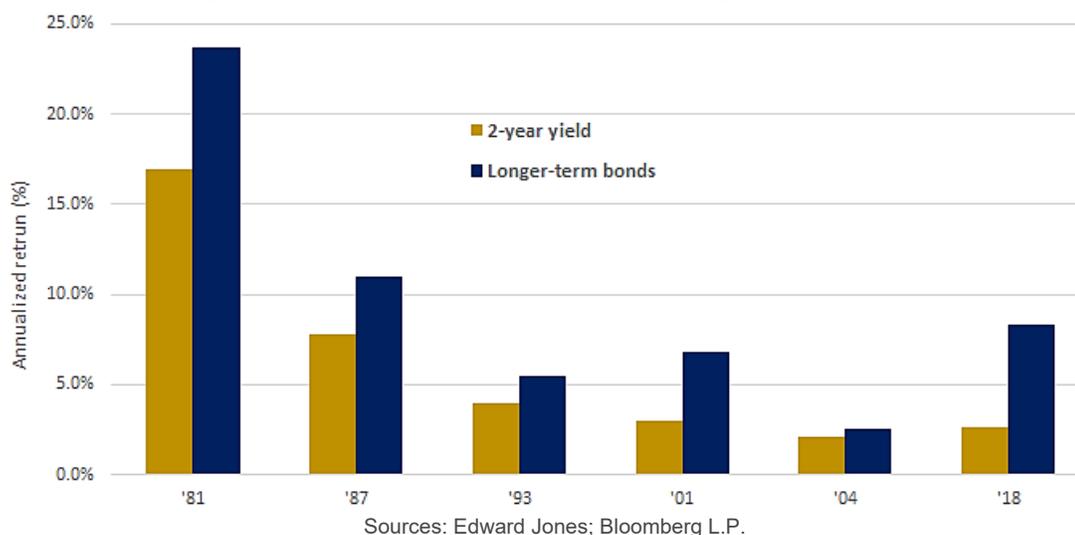


Source: Goldman Sachs; Option Metrics; The Daily Shot. Data as of 11.18.2022.

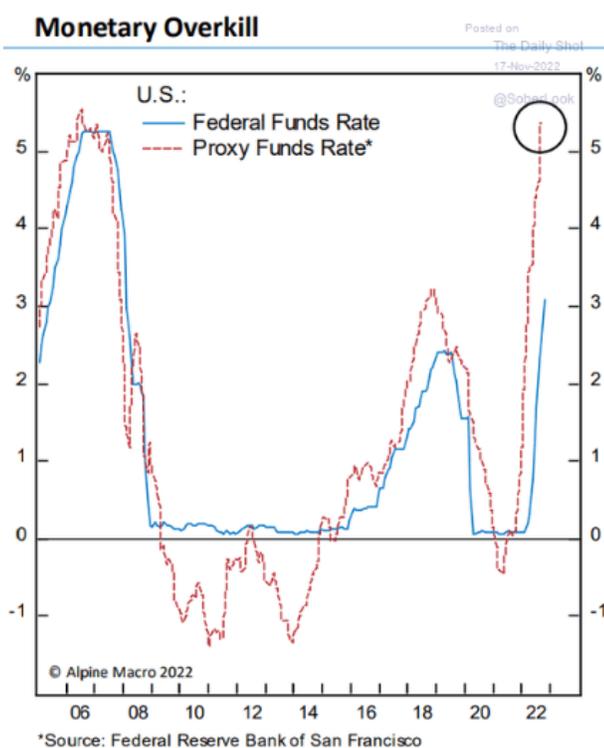
Fixed Income Markets

- The chart below shows the outperformance of longer-term bonds over short-term bonds when the two-year Treasury yield rises more than 1% above the federal funds rate.

When 2-year rates rose to more than 1% above the Fed funds rate during prior rate hike cycles, longer-term bonds outperformed over the following 24 months



- Monetary conditions appear tighter than the federal funds rate indicates, according to Alpine Macro and Fed Bank of San Francisco. The proxy funds rate incorporates Fed-forward guidance and the Fed balance sheet along with the current federal funds rate.



Sources: Alpine Macro; The Daily Shot. Data as of 11.17.2022.

U.S. Economic and Political News

- The Commerce Department reported that retail sales, excluding the volatile auto segment, rose 1.3% in October, both well above expectations and the biggest gain since May.
- Industrial production fell unexpectedly in October, with weakness in the energy and materials sectors.
- Jobless claims over the previous week remained contained. However, 222,000 workers filed for unemployment benefits.

International Markets and News

- The Chinese stock market (Shanghai Composite) rose +0.3% as a meeting with U.S. President Joe Biden and Chinese President Xi Jinping appeared to boost sentiment.
 - China's National Health Commission announced that it was stopping mass testing in districts not at risk of community transmission despite a seven-month high of 25,000 new cases last Thursday.
 - Chinese officials unveiled 16 new programs to shore up the property markets, including extending loans to both developers and homebuyers, according to Reuters.
- European markets (STOXX 600 Index) rose modestly as European Central Bank President Lagarde said interest rates need to rise more as policymakers seek to fight inflation.
 - The U.K.'s finance minister Jeremy Hunt unveiled tax increases, spending cuts, and new fiscal rules in his Autumn Statement, with a plan toward repairing the public finances and restoring Britain's credibility in international markets.
 - The economic forecasts of the Office for Budget Responsibility (OBR) accompanying the statement suggested that the U.K. is already in a recession and called for the economy to shrink -1.4% in 2023, the sharpest contraction in Europe.
- Japanese equities (Nikkei 225 Index) fell -1.3% as the rate of core consumer price inflation rose to a 40-year high, exerting fresh pressure on the Bank of Japan (BoJ), which nevertheless remains committed to its ultra-loose monetary policy stance.
 - Japan's gross domestic product (GDP) unexpectedly contracted at an annualized 1.2% in the third quarter as the significant decline in the Yen weighed on economic growth.

This Week:

- The volume of corporate earnings reports will decline this week.
- Economic data:
 - Monday: Limited data;
 - Tuesday: Limited data;
 - Wednesday: Mortgage Bankers Association (MBA) Mortgage Purchase Applications, Core Durable Orders, Durable Orders ex transport, Durable Orders, Flash Manufacturing Purchasing Managers' Index (PMI), Flash Services PMI, Michigan Consumer Sentiment (Final), New Home Sales, Federal Open Market Committee (FOMC) minutes, weekly jobless claims, U.S. Department of Energy (DOE) Crude Inventories, Energy Information Administration (EIA) Natural Gas Inventories;
 - Thursday: Limited data;
 - Friday: Limited data.

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

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The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: 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 U.K.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

Technical Terms: **The Producer Price Index (PPI)** measures the average change in sale prices for the entire domestic market of raw goods and services. These goods and services are bought by consumers from their primary producers, bought indirectly from retail sellers, or purchased by producers themselves. Changes in the **federal funds rate** can impact the U.S. dollar. When the Federal Reserve increases the federal funds rate, it typically increases interest rates throughout the economy. The higher yields attract investment capital from investors abroad seeking higher returns on bonds and interest-rate products. **The Purchasing Managers' Index (PMI)** is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting. The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors. **Gross domestic product (GDP)** is a standard measure of a country's economic health and an indicator of its standard of living. Also, GDP can be used to compare the productivity levels between different countries. Technical definitions are sourced from Corporate Finance Institute.)

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