



**The Weekly Market Update – 11/14/22: Equity Markets Predict Peak Inflation**

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	3,992.93	5.90%	11.36%	-16.22%	-13.30%	4,796.56	20.1%
Dow Jones Industrial Average	33,747.86	4.15%	17.48%	-7.13%	-5.78%	36,799.65	9.0%
NASDAQ Composite	11,323.33	8.10%	7.07%	-27.62%	-26.94%	16,057.44	41.8%
Russell 2000	1,882.74	4.60%	13.10%	-16.15%	-18.04%	2,442.74	29.7%
MSCI EAFE (USD)	1,918.41	8.36%	15.46%	-17.88%	-17.86%	2,398.71	25.0%
MSCI Emerging Markets (USD)	935.73	5.73%	6.84%	-24.05%	-26.02%	1,444.93	54.4%
Bloomberg Commodity Index	116.88	-0.52%	4.84%	17.86%	13.08%	237.95	103.6%
Barclays U.S. Aggregate Bond	87.97	2.34%	0.30%	-16.00%	-16.37%	112.07	27.4%

Source: FactSet

**October inflation data was better than expected, sparking the strongest one-day gain in equities in more than two years.** The consumer price index (CPI), a widely followed measure of consumer inflation reported monthly by the U.S. Bureau of Labor Statistics (BLS), showed that headline inflation increased 7.7% in October 2022 vs. October 2021. This was the lowest year-over-year (Y/Y) monthly CPI increase since January 2022, and the fourth consecutive month of a lower Y/Y report since June's 9.1% increase. Core CPI, which excludes the food and energy categories, increased 6.3% in October Y/Y, below the September peak level of 6.6%. Although these Y/Y inflation numbers remain uncomfortably high, the October trend was a move in the right direction, and the month-to-month (M/M) change was even better. October CPI increased 0.4% from September and core CPI increased 0.3% M/M. Both numbers were lower than expected. If we annualize the M/M numbers (multiply by 12), they are well below the reported Y/Y numbers for October, 4.8% and 3.6% for CPI and core CPI, respectively. This is further evidence, in our view, of improving inflation data, and suggests that the Federal Reserve Bank's (Fed) higher interest rate policy in place since March 2022 is having an impact on prices. Inflation data improved despite higher M/M gasoline prices, and the inflation moderation was largely attributed to a 0.4% M/M decline in goods prices as household furnishing, apparel, used cars, smartphones and computers were all lower. Services prices increased 0.5% M/M, still elevated but an improvement from prior months. Within services, shelter prices were higher, driven mostly by lodging away from home (hotels), while both rent and "owners' equivalent rent" showed moderating increases from September. In addition, pricing for medical services declined 0.6% M/M in October. Following the 11/10/22 CPI announcement, the widely followed, large-company S&P 500 index closed the day with a gain of 5.5%, the index's largest single day rally since April 2020. We attribute the increase to investor perception that lower inflation trends will ultimately allow the Fed to pause hiking short-term interest rates, removing the uncertainty of higher interest rates as a headwind to equity valuations (typically, higher interest rates reduce the present value of future cash flows, leading to lower stock prices).

**For the week ended 11/11/22, the S&P 500 gained 5.9%, erasing index losses to begin the month and extending equity market gains in the fourth quarter of 2022 (4Q22).** Quarter-to-date through 11/11, the index was up 11.4% on a price basis (does not include dividends) and all 11 S&P 500 global industry classification (GICS) sectors were higher. 4Q gains were led by Energy +29.6%, Industrials +20.0%, Materials +19.4%, and Financials +18.1%. Information Technology, after a market-leading 10.0% gain last week, was up 11.9% in 4Q22. Each of these sectors are considered "cyclicals," which are more likely to benefit from renewed economic growth. We believe investors have assigned a higher probability of the U.S. economy avoiding a contraction (recession) in late 2022, although the FactSet consensus (from Wall Street economists) is for U.S. GDP (gross domestic product) growth in 1Q23 and 2Q23 of -0.3% and -0.6%, respectively.

**U.S. economic data takes center stage this week as we await key reports on consumer activity and housing.** According to the Atlanta Federal Reserve Bank's GDPNowcast, 3Q22 GDP trends (from data already reported) point to 4.0% GDP growth in 3Q22, which is above the FactSet +0.7% consensus estimate. Wednesday's retail sales data from the Census Bureau will give a solid read on October consumer spending trends, and its housing starts data on Thursday will offer a similar snapshot for October residential construction.

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