KRILOGY

WEEKLY MARKET RECAP | October 24, 2022

Week in Review

Equity Markets:

All major indices ended the week in highly positive territory. The S&P 500 climbed 4.7%, with broad market participation. Slowing economic numbers and better-than-expected earnings helped push the markets higher.

Earnings ramped up last week. 20% of S&P 500 companies have reported so far. According to FactSet, 72% have beaten earnings expectations. This is slightly lower than the five- and 10-year averages but is still much better than anticipated. With the current economic backdrop, many market participants expected to see reports that were meaningfully worse. The blended earnings growth rate thus far sits at 1.5%. This number is a slight increase from the previous week's 1.3%

Fixed Income Markets:

The 10-year treasury ended the week at 4.23%. This is the highest yield the market has seen since 2008. The yield curve remains steeply inverted with the 2-year/10-year spread ending the week at -0.27%. *The Wall Street Journal* reported that some members of the Federal Reserve have expressed concerns over the potential for overtightening. This could be a good sign for the bond market going forward.

Economic:

The Leading Economic Indicators Index fell 0.4% in September. Continued inflation, rising rates, and tighter credit conditions have contributed heavily to the long negative trend over the past six months. Despite weakening economic conditions, the labor market remains resilient. Weekly unemployment claims remain near historic lows at 214,000.

The housing market continues to cool as mortgage rates have nearly doubled over the past year.

Looking Ahead

Equity Markets:

Corporations have found a way to navigate the current environment. This is likely due to the historically high profit margins coming out of the pandemic and the balance sheet strength that was supported by government stimulus. Fiscal policy impact takes time to show up in the data. The initial rate hike was almost eight months ago. We are starting to see the impacts in the housing market and we anticipate continued this to continue in the coming months.

In our opinion, to see a sustained rally, we believe the Fed will need to have a policy shift. This could come from a slower rate hike policy or a pause. This will likely accompany slowing inflation and should help push treasury yields down. That environment is conducive to a stock market rally. Until this occurs, we recommend investors stay disciplined and vigilant. Opportunities remain present in the market for investors who have the time horizon to withstand the elevated market volatility.

Fixed Income Markets:

Interest rates are at levels last seen more than a decade ago. Last week's *Wall Street Journal* report could indicate a turning point going forward for fiscal policy. Up to this point, the majority of Fed officials have backed the current policy actions. With some members raising concerns over the potential for going too far, it could mean we are closer to the end of the rate hiking cycle than most expect.

Historically, yields have peaked before the final FOMC rate hike. We believe we are near the top end of the rate hiking cycle so bond yields are attractive at the current 4%+ levels. It is possible for yields to move slightly higher but we believe that we should generally be buyers of bonds right now, and not sellers. You should speak with your Advisor on whether this is appropriate for your portfolio.

Economic:

The first GDP estimate for the third quarter will be released Thursday. Following two negative quarters, which has traditionally been the definition of a technical recession, this reading is of great importance.

Friday will be a very big day for reports. The Fed's preferred inflation gauge, the Personal Consumption Expenditures Index, will be released. Also, the final reading of the University of Michigan's Consumer Sentiment Index will be released.

**** *See Important Disclosures on following page*

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