Week in Review

Equity Markets:

85% of S&P 500 companies have reported earnings so far. 70% of companies have beaten earnings expectations and 71% have beaten analysts' revenue expectations, according to FactSet. The blended earnings growth rate is 2.2%, which combines reported earnings and uses the estimates for any companies that have not yet reported. Earnings are better than feared, but it is important to note the large earnings growth out of the energy sector. The energy sector has a year-over-year earnings growth rate of 139%. According to FactSet data, if energy earnings were to be excluded, earnings would be down 5%.

The S&P broke its winning streak and ended down 3.3%. Value stocks held up better relative to growth following the most recent rate hike.

Fixed Income Markets:

The Fed raised rates by 0.75% for the fourth consecutive meeting. Statements made by Chairman Powell indicated they will remain data-dependent and they will keep all policy actions on the table. They did not rule out another 0.75% hike at the next meeting in December but they also revealed it is not a forgone conclusion.

The 10-year yield rose five basis points and ended the week at 4.17%. The short end of the yield curve was less affected by the most recent hike. The 2-year treasury only increased by three basis points, but the yield curve remains in deeply inverted. The 2's/10's spread decreased to -0.49%.

Economic:

October's jobs report was the headline report for the week. The labor market remains extremely strong. The economy surprised on the upside adding 261,000 jobs versus the estimate from Bloomberg of 193,000. The unemployment rose slightly to 3.7%. Average hourly earnings increased by 4.7%; meeting expectations.

Looking Ahead

Equity Markets:

Earnings season has seen its ups and downs but has been better than expected. We believe the current low represents a large majority of the potentially bad news. At roughly -27% in early October, we believe a mild recession was being priced in. This mild slowdown also includes either a deceleration in earnings growth or potentially negative in the next few quarters. 2022 full-year earnings estimates have already come down ~10% from the beginning of the year according to data from Yardeni Research. This decrease has 2022 earnings growth at 6%. After a historic 2021, heavily influenced by the global economy reopening following the lockdown, earnings grew nearly 50%. It is very easy to look at this year's growth and feel disappointed, but 6% is very close to the 10-year average growth rate.

This has been a historically tough year for investors. Through last week, the Barclays US Aggregate Index was down roughly 16% and the S&P 500 is down 20%. We believe that staying disciplined in your strategic asset class allocations will reward the long-term investor. We are in the midst of a historic bond sell-off and devaluation in the equity markets. If volatility can be accepted, we believe that there are opportunities to purchase assets that present attractive upside potential in the long run.

Fixed Income Markets:

This week, many members of the Federal Reserve will speak about their outlook on the economy, inflation, and the future of rate hikes. Following the statements by Jerome Powell at last week's press conference, the markets will wait to hear the opinions of other members. There is little certainty when the Fed will slow its rate hiking. It appears some members are starting to change their thinking and are beginning to express concerns over the need to keep the current pace of hikes.

Given the data-dependent stance and some Fed members starting to express concerns of over-tightening, we believe we are close to the top end of the current rate cycle. It is possible for rates to breach the current highs, but the vast majority of the damage in the bond market has already occurred in our opinion.

Economic:

October's CPI will be released Thursday. Economists are expecting a year-over-year increase in the headline number of 7.9% and an increase of 6.5% in Core CPI, which excludes food and energy. A report on consumer credit will be released Monday. The consumer has remained strong, but credit usage has steadily been increasing which point to some softening. The NFIB Small Business Optimism survey will also be released.

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

Important Disclosures:

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