Week in Review

Equity Markets:

The S&P 500 ended the week nearly flat at -0.7%. The market could not keep the momentum from the previous week. There are two major factors of concern: deteriorating economic numbers, and uncertainty regarding the pace of future rate hikes.

94% of S&P 500 companies have reported earnings. 69% have beaten earnings expectations and 71% have beaten revenue expectations, according to FactSet. This is below the five- and 10-year averages, but ultimately the results are better than expected from the beginning of the quarter. Earnings season has not been spectacular, but the results have been broadly better than expected. The blended earnings growth rate is 2.2% for Q3.

Fixed Income Markets:

Treasury yields pushed modestly higher following a multi-week decline. The 2-year Treasury yield ended the week up six basis points at 4.51%. The 10-year Treasury ended at 3.82%.

The spread of the 2's/10's ended the week at -0.69%. This is the steepest this portion of the yield curve has been inverted since 1981.

Economic:

Inflation appears to continue its downtrend following a cooler-than-expected PPI report last week. The Leading Economic Index fell for the eighth straight month. As this index deteriorates, the probability of recession increases with every reading. Retail sales showed year-over-year growth of 1.3% and confirmed the consumer is holding up despite inflation and the slowing economic environment.

Housing continues its rapid descent following the pandemic rally. Existing home sales declined more than 28% in October from the previous year. This is on the heels of mortgage rates spiking to levels last seen over 15 years ago.

Looking Ahead

Equity Markets:

The S&P 500 has a current forward P/E of 17.2x. This is below the five-year average of 18.5x but slightly above the 10-year average of 17.1x, according to data by FactSet. The recent rally has been fueled by multiple expansions and a bounce from historic lows in market sentiment. Analysts are anticipating an earnings decline of 2.1% for Q4. Investors should brace themselves for heightened volatility through the end of the year. We could see the first quarter of negative earnings growth since 2020 and the uncertainty on Fed Policy has the potential to move the market in a drastic way.

Investors should continue to focus on the long game. 11 months into the year, the S&P is down nearly 17% and at the same time the Aggregate Bond Index is down slightly more than 13%. In a year where there are few places in the market to escape the damage, it can be emotionally draining to remain committed to a long-term strategy. Historically, the rallies out of bad markets have been unpredictable, and oftentimes, swift. Staying committed and disciplined has historically rewarded investors in capturing the rebounds.

Fixed Income Markets:

The major event for the week will be the release of the meeting minutes from the most recent FOMC policy meeting earlier this month. There have been mixed messages from members of the Fed since the meeting. Some have come out and said they believe there is still a need for a hawkish stance to continue to dampen inflation, while others feel that it could be time to slow down. Investors will be very interested to analyze the minutes in search of indicators for the most likely Fed action to come in December.

Economic:

With the shortened week for the market, the economic calendar is fairly light. All reports will be released Wednesday this week. The preliminary University of Michigan Consumer Sentiment Index will garner attention. S&P Global will release its manufacturing and services PMI report. We will also get an update for new home sales in October.

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

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