KRILOGY

Week in Review

Equity Markets:

The S&P 500 finished the holiday-shortened week up 1.5%. The S&P has rallied nearly 12% from its mid-October low. The rally last week was supported by the Fed minutes that indicated the Fed could begin to slow the pace of rate hikes sooner rather than later.

Fixed Income Markets:

The headline event for the week was the release of the meeting minutes from the most recent FOMC policy meeting. The minutes supported the narrative that many Fed officials have recently conveyed publicly. The minutes indicated a "substantial majority" of members believe that a slowdown in the pace of rate hikes could be soon appropriate.

Treasury yields remained relatively flat for the week. The 10-year Treasury Bond ended the week yielding 3.70%. The yield curve has become even more inverted as the Federal Funds Rate currently has a higher yield than the 10-year. As the yield curve waterfalls into inversion, many market participants believe that the waterfall effect is more of a confirmation of the 2's/10's inversion and a precursor to an eventual recession.

Economic:

The final reading from the University of Michigan Consumer Sentiment Index was revised slightly higher to 56.8 from the preliminary reading of 54.7. The current Conditions and Expectations sub-indexes were revised higher. S&P Global reported contractions in the Manufacturing and Services PMI. The composite for both sectors came in at 46.3. A reading below 50 indicates the business environment is contractionary rather than growing.

Looking Ahead

Equity Markets:

Continued relief could be in sight for the equity markets if the Fed shifts its rate hikes to a slower pace. The Fed *will eventually* pivot, and the real question is when? That is nearly an impossible question to answer correctly when it comes to markets. As long-term investors, the best that can be done is to make well-thought-out investing decisions and stay committed to your long-term goals. We believe that after a decade-plus of concentrated leadership in the markets, proper diversification could come back in favor. Leaders of previous cycles do not always lead in the following one. If history is any lesson, the markets have a high tendency to revert back to the mean. To maximize long-term performance, this is a key data point for investors to keep top of mind.

Fixed Income Markets:

Following the release of the FOMC meeting minutes, the markets priced in a high probability of a 50-basis point rate hike at the December policy meeting. The current probability sits at 75% with a 25% probability of a fifth consecutive 75-basis point increase. This year has been one of the worst bond markets in history and if investors were to take a step back and look at all that has occurred so far, it makes some sense as to why. The intensity of the rate hikes is unparalleled over the last 100 years. The rate of change in the Federal Funds Rate has been over 1,500% according to data compiled from Nautilus Investment Research.

Economic:

The Conference Board will release the Consumer Confidence Index. This, along with personal income and spending, should provide timely insight into the health (and psyche) of the consumer as we move into the holiday season. The first revision of Q3 GDP will be released on Wednesday. The housing market will also be in focus as the Case-Schiller Home Price Index and mortgage applications will also be reported this week.

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

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