



NOVEMBER 2022

Capital Markets Commentary

- » Fed Language Softens
- » Impact of Inflation
- » Employment Remains Strong

Market is Sending Mixed Signals

MARKET UPDATE

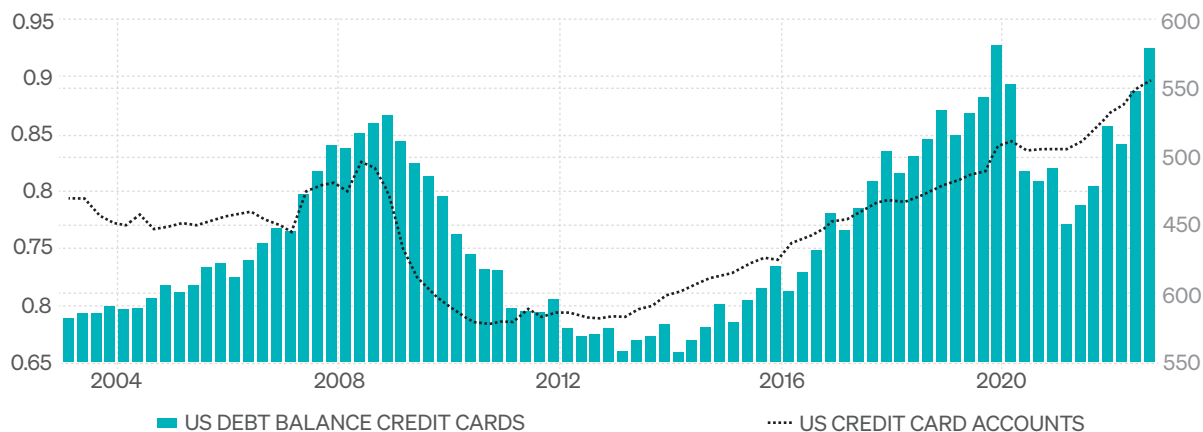
The stock market rallied in November as the S&P 500 Index increased +5.6% and brought the year-to-date return to -13.1%. The equity benchmark has rebounded relative to its drawdown of -25% earlier this year. Each of the S&P sectors had positive performance for the month. Value oriented stocks of large-, mid-, and small-cap companies, as represented by the Russell 1000 Value, Russell Midcap Value and Russell 2000 Value indices respectively, outperformed their Growth style counterparts.

THE FEDERAL RESERVE

Fixed income investments continue to struggle as the Fed maintained their commitment to raising short-term interest rates to try to contain inflation. The Fed did provide clarity this month and stated that moderating the level of interest rate hikes could begin as early as December. Smaller hikes are an indication that the committee is seeing progress in its fight against inflation. Powell was quoted as saying, "Despite some promising developments, we have a long way to go in restoring price stability." This softening stance from the Fed was welcomed by investors, but it is still unknown how long the Fed will keep their monetary policy restrictive.

INFLATION

PCE, the Fed's preferred measure of inflation has shown signs of stabilization. Core PCE, which excludes food and energy prices, rose less than expected by just 0.2% in October. This brought the year over year change to +5%. This is another indicator suggesting that inflation is showing signs of easing, but it is still a long way from the Fed's level of 2.0%.



SOURCE: TRADINGECONOMICS.COM

The impact of inflation continues to reveal itself in different parts of the economy. For example, U.S. taxpayers will see the effects of inflation on their 2023 tax returns. The standard deduction is increasing by 7% from 2022 to prevent Americans from owing more income taxes due to inflationary increases in employee salaries. In addition, marginal tax rates will also increase to reflect this change. Retirees receiving checks from Social Security will also see an increase in their payments beginning in January. The Social Security Administration utilizes the CPI-W index for determining the level of inflation. Therefore, those receiving Social Security checks will see an increase of 8.7%.

CONSUMER SPENDING

When economists speak about a potential recession, the first thing they normally refer to is consumer spending. That's because nearly 70% of the economy's GDP is driven by consumer spending. Recent reports show that consumers are continuing to spend, but they are utilizing sources that suggest they are running out of money. As of the end of November, the number of credit card accounts increased to an all-time high of 555 million. Additionally, the total amount of credit card balances increased 15% year over year to \$930 billion, just shy of all-time high.

The impact of inflation is compounding this problem as the Fed's rate hikes are increasing variable credit card interest rates. According to CreditCards.com's weekly rate report, the national average for a credit card rose to an all-time high of 19.34%. Therefore, more people have credit cards and are utilizing them at a greater rate, and the cost to maintain that debt is more expensive due to higher interest rates.

EMPLOYMENT

The November non-farm payrolls report showed an increase of 263,000 jobs easily beating the estimates of 200,000. This is another surprise to the upside as most analysts were expecting to see more lower employment numbers as part of the impact from a tightening monetary policy. Unemployment remained constant at 3.7% but the employee participation rate remained below levels seen prior to COVID-19 pandemic at 62.1%.

INSTITUTE OF SUPPLY MANAGEMENT

For the first time since May of 2020, the ISM Manufacturing PMI contracted with the November index reading of 49.0. This was a noticeable shift from the expansionary level of 50.2 in October. Services as represented by the ISM Nonmanufacturing PMI experienced a significant jump from 54.4 to 56.5. A level above 50 represents an expansion while a level below 50 signals that the industry is contracting.



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