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Market Insights - October 21, 2022

U.S. EQUITIES LEAP AS HOUSING IS BEATEN DOWN REPEATEDLY WHILE CORPORATE EARNINGS HOLD UP BETTER THAN EXPECTED

- U.S. stocks came roaring back this week, as the major equity indices all gained about 5% on the week, more than recouping the previous week's losses
- While there was not one single thing propelling stocks, it appeared as if stronger than expected earnings on the backs of resilient consumers helped push equities up, with the S&P 500 recording its best weekly gain in about 4 months
- Many were quick to pin the week on a reversal of the fiscal plan over in the UK, but it was probably the better than expected corporate earnings, with about 20% of S&P 500 companies reporting, that helped prop up markets
- Of the 11 S&P 500 sectors, every single one of them was up, with Consumer Discretionary (+1.4%) being the worst performer and Energy (+5.2%) being the best
- In addition, 8 of the 11 S&P 500 sectors advanced more than 2%
- There was a decent amount of economic data this week, especially in the housing sector, as home builder sentiment plunged and existing home sales dropped dramatically
- The 30-year mortgage crested the 7.00% threshold too, further dampening the housing market
- The BofA fund manager survey showed cash holdings at their highest level since April 2001 (6.3%)
- The 10-year Treasury continued to stay north of 4.00%, adding about 20 basis points and coming to rest at 4.23%

Weekly Market Update – October 21, 2022

	Close	Week	YTD
DJIA	31,083	+4.9%	-14.5%
S&P 500	3,753	+4.7%	-21.3%
NASDAQ	10,860	+5.2%	-30.6%
Russell 2000	1,742	+2.7%	-22.4%
MSCI EAFE	1,698	+1.7%	-27.3%
Bond Index*	1,959.99	-1.00%	-16.08%
10-Year Treasury	4.23%	+0.20%	+2.7%

**Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results*

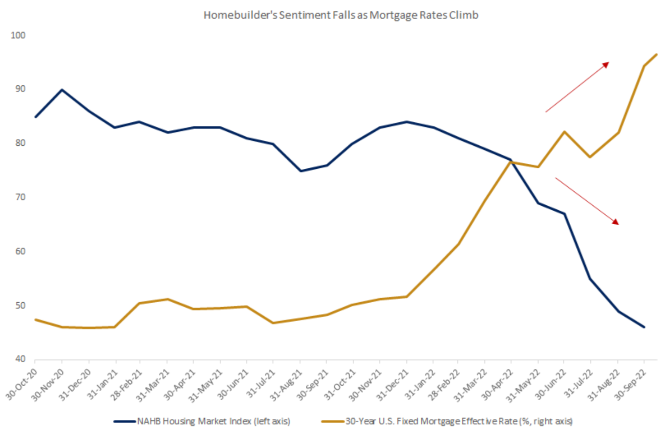
Stocks Leap As Earnings Come in Decent While Housing is Hammered

During the third trading week in October, stocks reversed course and made some big gains, as all the major U.S. equity indices were up close to 5%. The tech-laden and beaten-down NASDAQ had the best week, leaping +5.2%, followed by gains of +4.9% and +4.7% for the DJIA and S&P 500, respectively.

As of Friday's close, with 20% of S&P 500 companies reporting actual results, 72% of S&P 500 companies have reported a positive EPS surprise and 70% of S&P 500 companies have reported a positive revenue surprise.

And while Wall Street digested a lot of economic data this week, it was housing that came in especially soft:

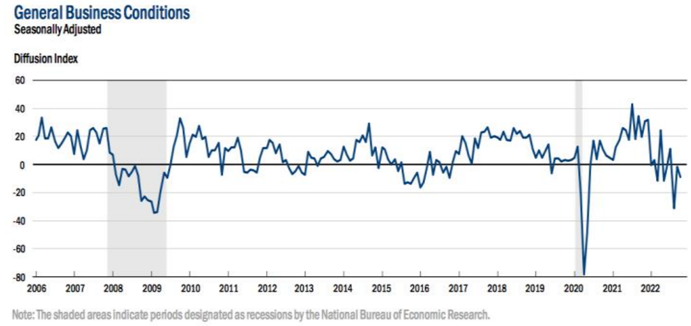
- First, the average 30-year mortgage rate crested 7.0%, helping push mortgage applications down to their lowest level since 2015.
- Existing-home sales dropped in September – the eighth month in a row of declines and a 10-year low – according to the National Association of Realtors.
- Maybe worse is that on a year-over-year basis, sales dropped in all regions of the country.
- And if those data points are bad enough, the NAHB homebuilder sentiment index fell to 46, its lowest since 2020.



Manufacturing Activity Declines Slightly in New York State Area

On October 17th, it was reported that business activity declined modestly in New York State, according to the October 2022 Empire State Manufacturing Survey.

- The headline general business conditions index fell eight points to -9.1.
- New orders, unfilled orders, and shipments were all little changed from last month.
- Delivery times held steady, and inventories inched higher.
- Labor market indicators pointed to a small increase in employment and the average workweek.
- Input price increases picked up, while the pace of selling price increases held steady.
- Looking ahead, firms do not expect business conditions to improve over the next six months.



Conditions Weaken
Manufacturing activity declined in New York State, according to the October survey. The general business conditions index fell eight points to -9.1. Twenty-three percent of respondents reported that conditions had improved over the month, and thirty-two percent reported that conditions had worsened. The new orders index was unchanged at 3.7, indicating a slight increase in orders, while the shipments index plunged twenty points to -0.3, pointing to a levelling off of shipments after they increased significantly last month. The unfilled orders index came in at -3.7, indicating that unfilled orders were slightly lower. The delivery times index held near zero for a third consecutive month, indicating that delivery times held steady. The inventories index edged down to 4.6, a sign that inventories increased just slightly.

Input Price Increases Pick Up
The index for number of employees was little changed at 7.7, pointing to a modest increase in employment levels, and the average workweek index climbed to 3.3, signaling a slight increase in hours worked. After falling significantly over the prior three months, the prices paid index rose nine points to 48.6. The prices received index held steady at 22.9.

Conditions Not Expected to Improve
The index for future business conditions fell ten points to -1.8, indicating that firms do not expect conditions to improve over the next six months. The indexes for future new orders and shipments remained depressed, though employment is expected to continue to increase. Delivery times are expected to shorten, and increases in capital spending are planned for the months ahead.

Corporate Earnings Remain Resilient

On Friday, research firm FactSet reported the following via press release:

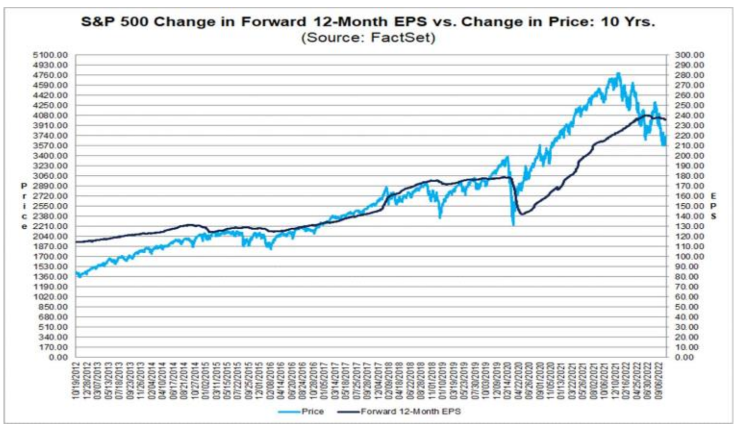
- For Q3 2022 (with 20% of S&P 500 companies reporting actual results), 72% of S&P 500 companies have reported a positive EPS surprise and 70% of S&P 500 companies have reported a positive revenue surprise.

- For Q3 2022, the blended earnings growth rate for the S&P 500 is 1.5%. If 1.5% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q3 2020 (-5.7%).

- Earnings Revisions: On September 30, the estimated earnings growth rate for Q3 2022 was 2.8%. Six sectors are reporting lower earnings today (compared to September 30) due to downward revisions to EPS estimates and negative EPS surprises.

- Earnings Guidance: For Q4 2022, 9 S&P 500 companies have issued negative EPS guidance and 6 S&P 500 companies have issued positive EPS guidance.

- Valuation: The forward 12-month P/E ratio for the S&P 500 is 15.6. This P/E ratio is below the 5-year average (18.5) and below the 10-year average (17.1).

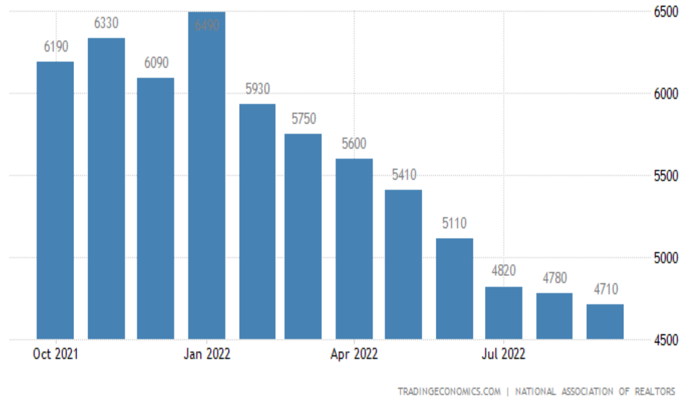


Existing Home Sales Fall to 10-Year Low, Down 24% Year-over-Year

Existing-home sales dropped in September – the eighth month in a row of declines and a 10-year low – according to the National Association of Realtors. On a year-over-year basis, sales dropped in all regions.

- Total existing-home sales, completed transactions that include single-family homes, townhomes, condominiums and co-ops, retracted 1.5% from August to an annual rate of 4.71 million in September.

- Year-over-year, sales waned by 23.8% (down from 6.18 million in September 2021).



Further:

- Total housing inventory registered at the end of September was 1.25 million units, which was down 2.3% from August and 0.8% from the previous year.

- Unsold inventory sits at a 3.2-month supply at the current sales pace – unchanged from August and up from 2.4 months in September 2021.

- The median existing-home price for all housing types in September was $384,800, an 8.4% jump from September 2021 ($355,100), as prices climbed in all regions.

- This marks 127 consecutive months of year-over-year increases, the longest-running streak on record.

- It was the third month in a row, however, that the median sales price faded after reaching a record high of $413,800 in June, the usual seasonal trend of prices trailing off after peaking in the early summer.

- Properties typically remained on the market for 19 days in September, up from 16 days in August and 17 days in September 2021.

- Seventy percent of homes sold in September 2022 were on the market for less than a month.

- All-cash sales accounted for 22% of transactions in September, down from 24% in August and 23% in September 2021.

Regional Breakdown

- Existing-home sales in the Northeast dwindled 1.6% from August to an annual rate of 610,000 in September, retreating 18.7% from September 2021. The median price in the Northeast was $418,500, an increase of 8.3% from one year ago.

- Existing-home sales in the Midwest slid 1.7% from the previous month to an annual rate of 1,140,000 in September, falling 19.7% from September 2021. The median price in the Midwest was $281,500, up 6.9% from the prior year.

- In the South, existing-home sales pulled back 1.9% in September from August to an annual rate of 2,080,000, a decline of 23.8% from this time last year. The median price in the South was $351,700, an increase of 11.8% from September 2021.

- Existing-home sales in the West were identical to last month at an annual rate of 880,000 in September, but down 31.3% from one year ago. The median price in the West was $595,400, a 7.1% increase from September 2021.

Sources: newyorkfed.org; nar.realtor; msci.com; fidelity.com; Nasdaq.com; wsj.com; morningstar.com