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Market Insights - December 2, 2022

STOCKS ADVANCE SLIGHTLY AS THE DJIA ENTERS A BULL MARKET WITH ALL EYES ON THE FED'S MID-DECEMBER FOMC MEETING

- Equity markets in the U.S. turned in another positive week, fueled by less-hawkish words from Fed Chair Powell amidst renewed hopes of smaller rate hikes in mid-December
- If the Fed decides to raise rates by 50 basis points versus 75 at their next FOMC meeting, the target range will be 4.25-4.50%
- The four major equity markets all advanced this week, with the tech-laden NASDAQ (+2.1%) leading the pack, followed by the small-cap Russell 2000 (+1.1%), then the S&P 500 (+1.1%) and finally the DJIA (+0.2%)
- But despite the DJIA bringing up the rear, it entered bull market territory as it has advanced more than 20% since its September low and it is within 5% of its all-time high
- There was a lot of economic data to unpack this week, including that personal income increased 0.7% month-over-month in October while personal spending jumped 0.8%
- The PCE Price Index came in up 0.3% month-over-month and the core-PCE Price Index, which excludes food and energy, increased 0.2%
- Nonfarm payroll came in higher than expected and the unemployment rate stayed near its 50-year low of 3.7%
- Of the 11 S&P 500 sectors, 9 of them were up, with Communication Services (+3.3%) and Consumer Discretionary (+2.1%) making the biggest jumps as Financials (-0.6%) and Energy (-2.0%) were the two that lost ground
- This week also saw some big swings in the Treasury market and when the week concluded, the 2-year Treasury yield fell 19 basis points to 4.29% and the 10-year Treasury yield fell 20 basis points to 3.49%

Weekly Market Update – December 2, 2022

	Close	Week	YTD
DJIA	34,430	+0.2%	-5.3%
S&P 500	4,072	+1.1%	-14.6%
NASDAQ	11,462	+2.1%	-26.7%
Russell 2000	1,893	+1.1%	-15.7%
MSCI EAFE	1,983	+0.9%	-15.1%
Bond Index*	2,078.64	+1.0%	-11.8%
10-Year Treasury	3.49%	-0.20%	+1.9%

**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*

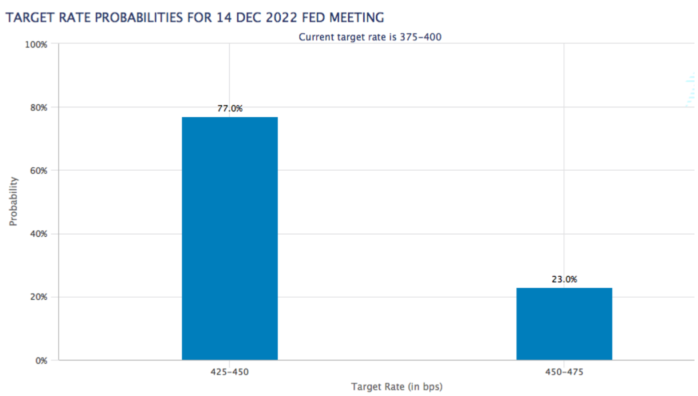
Stocks Advance Slightly as DJIA Turns Bullish

The major U.S. equity markets turned in another positive week, as Wall Street continued to try and guess whether the Federal Reserve might slow its pace and magnitude of future rate increases. And given the slight positivity to this week's markets, one can surmise that Wall Street is cautiously optimistic.

On the week, it was the growth names outracing the value names, the small-caps outpacing the larger-caps and the tech-names advancing more than the blue-chip stocks of the DJIA. But cheerleaders of the DJIA rejoiced in the fact that the DJIA entered bull market territory this week, as it advanced 20% off of its low from September and is only 5% off of its all-time high.

Fed-watchers dissected comments from Fed Chair Jerome Powell and interpreted that the Fed might be prepared for smaller rate hikes going forward, which pushed U.S. Treasury yields lower. But by Friday, Treasury yields reversed course when the jobs report showed robust hiring and strong wage growth.

Powell did caution those within earshot that the Fed needed to be careful of relaxing monetary policy too soon and again mentioned that this cycle of higher rates is likely to be longer than previously estimated. But he also suggested that the Fed could slow the pace of rate increases as early as the Fed's mid-December 2022 meeting.

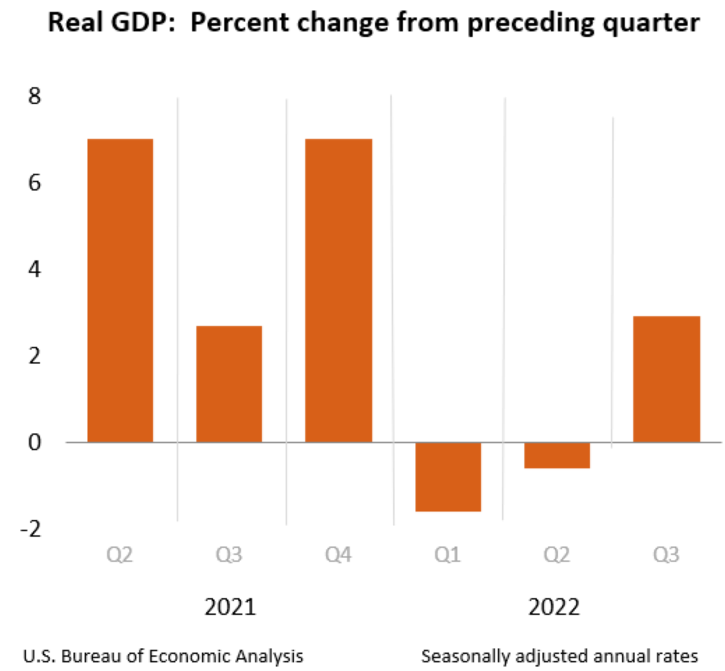


There was a decent amount of economic data to digest this week, including:

- GDP was up 2.9% for the Q2;
- The number of job openings declined by 353,000 to 10.3 million;
- Nonfarm payrolls data showed that the U.S. economy added 263,000 jobs in November;
- The unemployment rate remained at 3.7%;
- Consumer confidence and manufacturing activity slowed down; and
- Consumer spending increased by 0.8%.

GDP Up 2.9% in Second Quarter

On the last day of the month, the Bureau of Economic Analysis reported that real gross domestic product increased at an annual rate of 2.9% in the third quarter of 2022. In the second quarter, real GDP decreased 0.6%.



"The increase in real GDP reflected increases in exports, consumer spending, nonresidential fixed investment, state and local government spending, and federal government spending, that were partly offset by decreases in residential fixed investment and private inventory investment. Imports decreased.

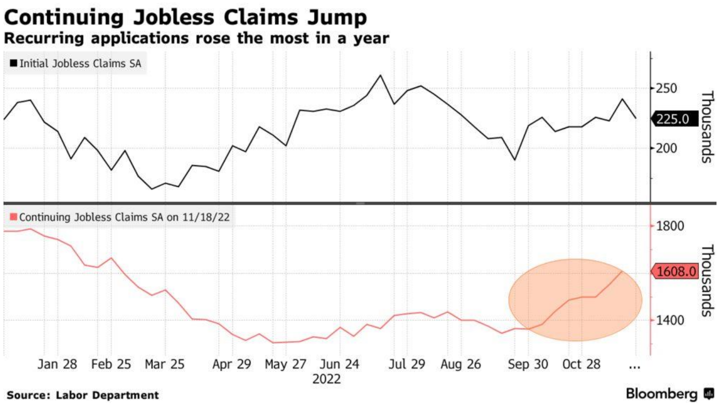
The increase in exports reflected increases in both goods and services. Within exports of goods, the leading contributors to the increase were industrial supplies and materials (notably nondurable goods), "other" exports of goods, and nonautomotive capital goods. Within exports of services, the increase was led by travel and "other" business services (mainly financial services).

Within consumer spending, an increase in services (led by health care and "other" services) was partly offset by a decrease in goods (led by motor vehicles and parts as well as food and beverages). Within nonresidential fixed investment, increases in equipment and intellectual property products were partly offset by a decrease in structures. The increase in state and local government spending was led by increases in compensation of state and local government employees and investment in structures. The increase in federal government spending was led by defense spending.

The decrease in residential fixed investment was led by new single-family construction and brokers' commissions. Within private inventory investment, the decrease was led by retail trade (mainly clothing and accessory stores as well as "other" retailers). Within imports, a decrease in imports of goods (notably consumer goods) was partly offset by an increase in imports of services (mainly travel)."

Employment Numbers Stay Robust

On Friday, the Department of Labor reported that the advance figure for seasonally adjusted initial claims was 225,000, a decrease of 16,000 from the previous week's revised level. In addition, the previous week's level was revised up by 1,000 from 240,000 to 241,000.



Further:

- The advance seasonally adjusted insured unemployment rate was 1.1 percent for the week ending November 19, unchanged from the previous week's unrevised rate.

- The advance number for seasonally adjusted insured unemployment during the week ending November 19 was 1,608,000, an increase of 57,000 from the previous week's unrevised level of 1,551,000.

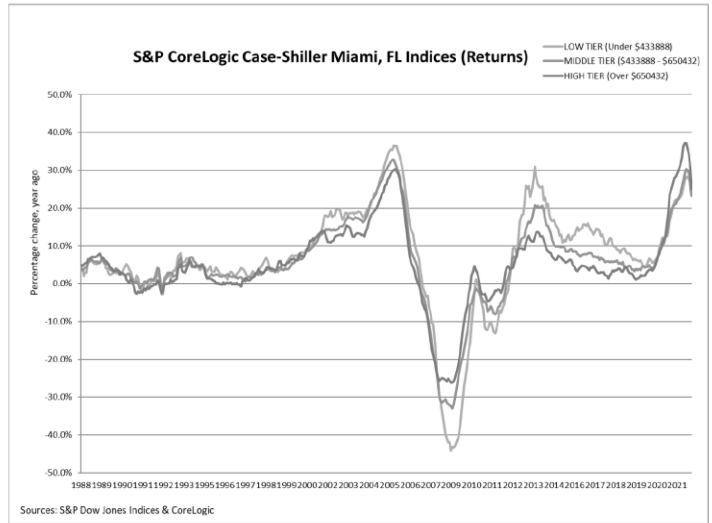
- The 4-week moving average was 1,538,750, an increase of 30,250 from the previous week's revised average.

- The previous week's average was revised down by 1,250 from 1,509,750 to 1,508,500.

Housing Continues to Soften

A few days before the end of the month, S&P Dow Jones Indices released the latest results for the S&P CoreLogic Case-Shiller Indices, the leading measure of U.S. home prices. Data released today for September 2022 show that home price gains declined across the United States.

"The S&P CoreLogic Case-Shiller U.S. National Home Price NSA Index, covering all nine U.S. census divisions, reported a 10.6% annual gain in September, down from 12.9% in the previous month. The 10-City Composite annual increase came in at 9.7%, down from 12.1% in the previous month. The 20-City Composite posted a 10.4% year-over-year gain, down from 13.1% in the previous month.



Miami, Tampa, and Charlotte reported the highest year-over-year gains among the 20 cities in September. Miami led the way with a 24.6% year-over-year price increase, followed by Tampa in second with a 23.8% increase, and Charlotte in third with a 17.8% increase. All 20 cities reported lower price increases in the year ending September 2022 versus the year ending August 2022."

Month-Over-Month
"Before seasonal adjustment, the U.S. National Index posted a -1.0% month-over-month decrease in September, while the 10-City and 20-City Composites posted decreases of -1.4% and -1.5%, respectively.
After seasonal adjustment, the U.S. National Index posted a month-over-month decrease of -0.8%, and the 10-City and 20-City Composites both posted decreases of -1.2%.

In September, all 20 cities reported declines before and after seasonal adjustments."

Analysis
"As has been the case for the past several months, our September 2022 report reflects short-term declines and medium-term deceleration in housing prices across the U.S. For example, the National Composite Index fell -1.0% in September, and now stands 10.6% above its year-ago level. We see comparable patterns in our 10- and 20-City Composites, which declined -1.4% and -1.5%, respectively, bringing their year-over-year gains down to 9.7% and 10.4%. For all three composites, year-over-year gains, while still well above their historical medians, peaked roughly six months ago and have decelerated since then.

Despite considerable regional differences, all 20 cities in our September report reflect these trends of short-term decline and medium-term deceleration. Prices declined in every city in September, with a median change of -1.2%. Year-over-year price gains in all 20 cities were lower in September than they had been in August.

The three best-performing cities in August repeated their performance in September. On a year-over- year basis, Miami (+24.6%) edged Tampa (+23.8%) for the top spot with Charlotte (+17.8%) beating Atlanta (+17.1%) for third place. The Southeast (+20.8%) and South (+19.9%) were the strongest regions by far, with gains more than double those of the Northeast, Midwest, and West; the two worst-performing cities were San Francisco (+2.3%) and Seattle (+6.2%)."

Sources: splglobal.com; bea.gov; dol.gov; msci.com; fidelity.com; Nasdaq.com; wsj.com; morningstar.com: census.gov