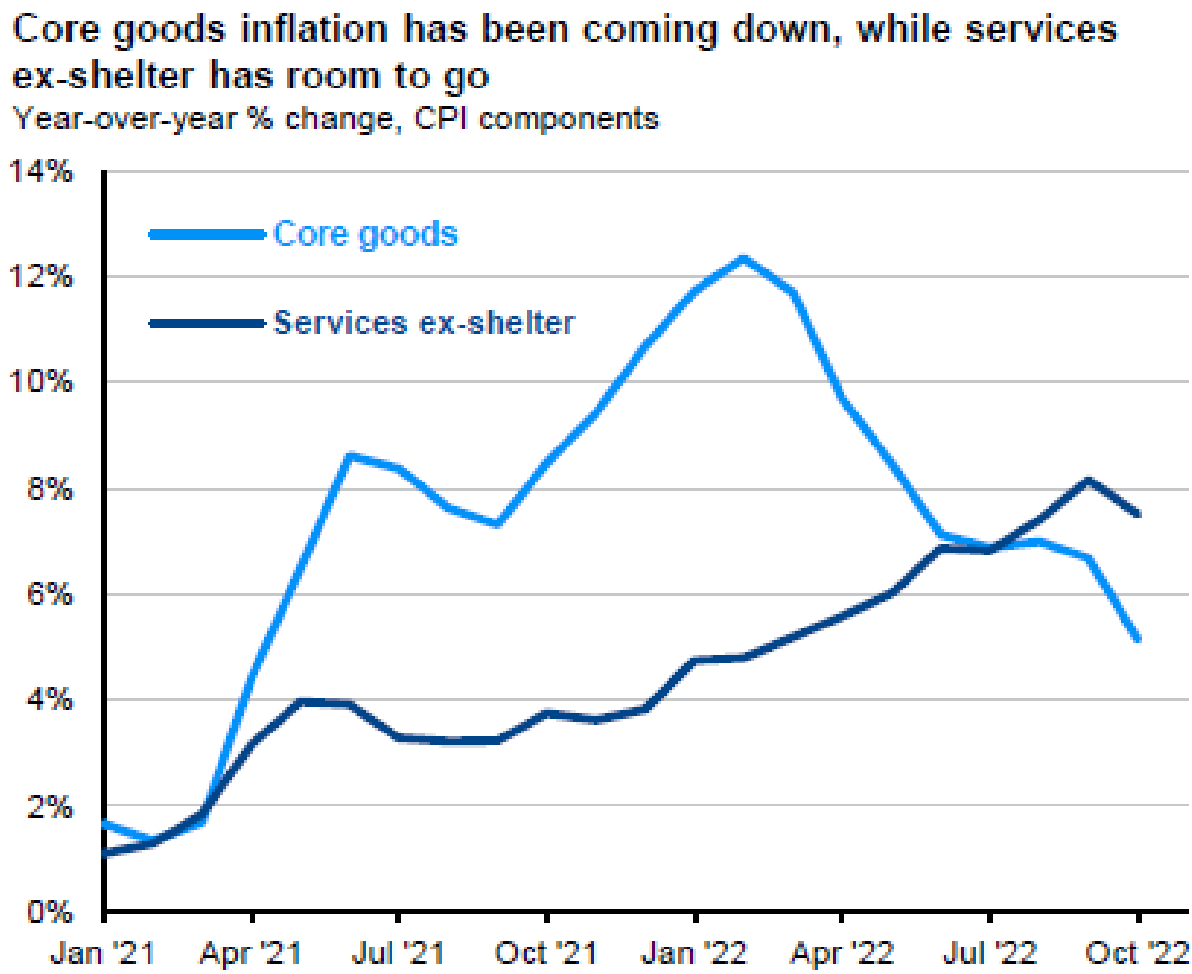
Monday, December 12, 2022

Good morning:

Equity markets declined between 2¾ - 4% last week in response to the hotter than expected report of core wholesale prices (PPI) which rose 0.4% last month versus the consensus estimate of 0.2%. However, it will be tomorrow's critical November CPI report due out at an hour before the market opens that will potentially confirm or contradict the past two months of moderating CPI figures. The final Fed meeting of the year is scheduled for the following day on Wednesday. Unless Tuesday's report surprises to high side, markets expect Powell to ratchet his rate hikes down to 0.50% this week as first step towards an expected pause by the spring of next year.

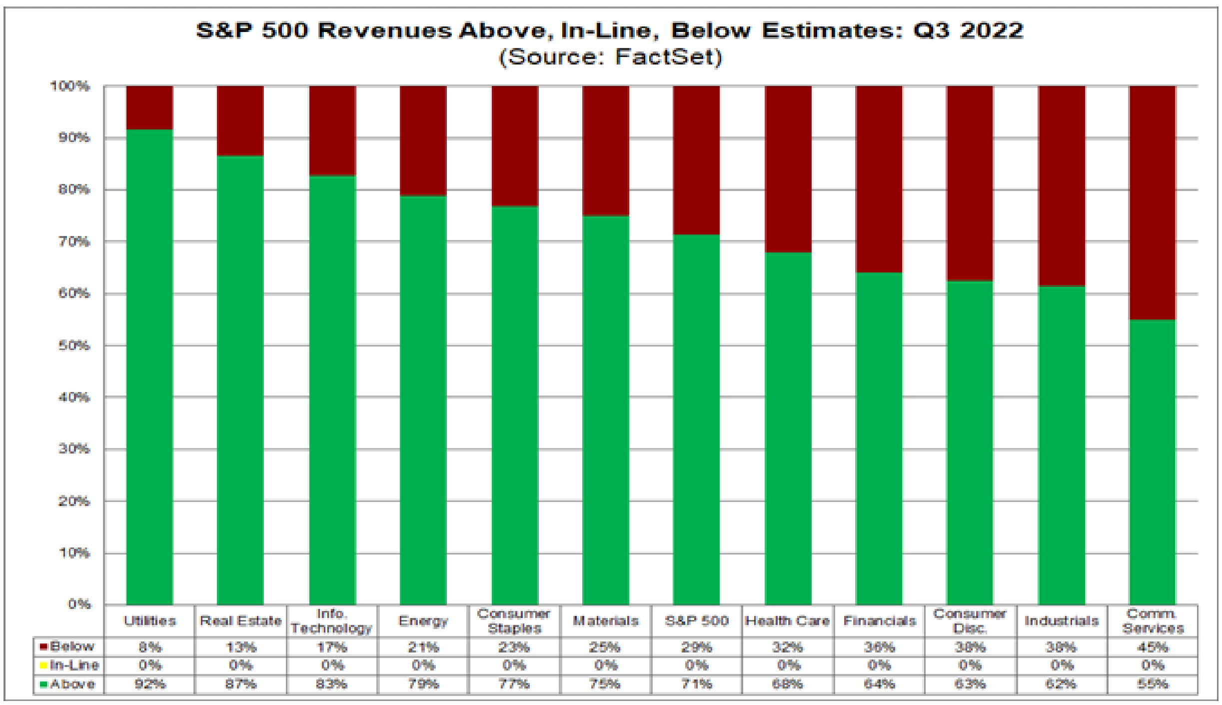
Measured separately, core goods inflation, which removes food and energy, continues to show the largest declines while the services inflation (excluding rent) has a long way to go. After a long streak of monthly increases, services inflation finally showed a decline in October. Based primarily on the tight labor market, the Fed will be closely watching this aspect of tomorrow's data for continued signs of moderation in the labor market's impact on the service sectors' contribution to inflation.



Source: JP Morgan Asset Management

Equity averages are all modestly higher at today's opening on the hopes that another month of softening CPI tomorrow will prompt a year-end rally. Although we are cautiously optimistic on such a scenario, we are aware that many unknowns and risks remain when we start 2023 in just three short weeks. Tops among them is the question of whether all these rate hikes will trigger a sharp contraction in economic growth and earnings next year. Markets have already priced in a slowdown, but only time will tell if further price erosion materializes or is warranted.

On the backs of strong energy prices and a very resilient consumer, companies among the S&P 500 on average actually *grew* their profits this year with 71% beating their consensus estimates for Q3. The steep decline in stock prices was strictly a contraction in the multiple, or price at which those companies trade relative to their earnings. This often occurs in a rising rate environment in anticipation of the slower economy that Fed is determined to create resulting from their tightening efforts to tamp down inflation.



We continue to expect heighted volatility in both directions and caution against trying to time the market’s upcoming market-moving events. Instead, we remain well diversified in the strategies we manage with a continued bias towards high-quality dividend-paying defensive sectors amongst the professionally managed mutual funds and ETFs we utilize.

Have a great week!

Mark and Jeff

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The Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

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Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

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