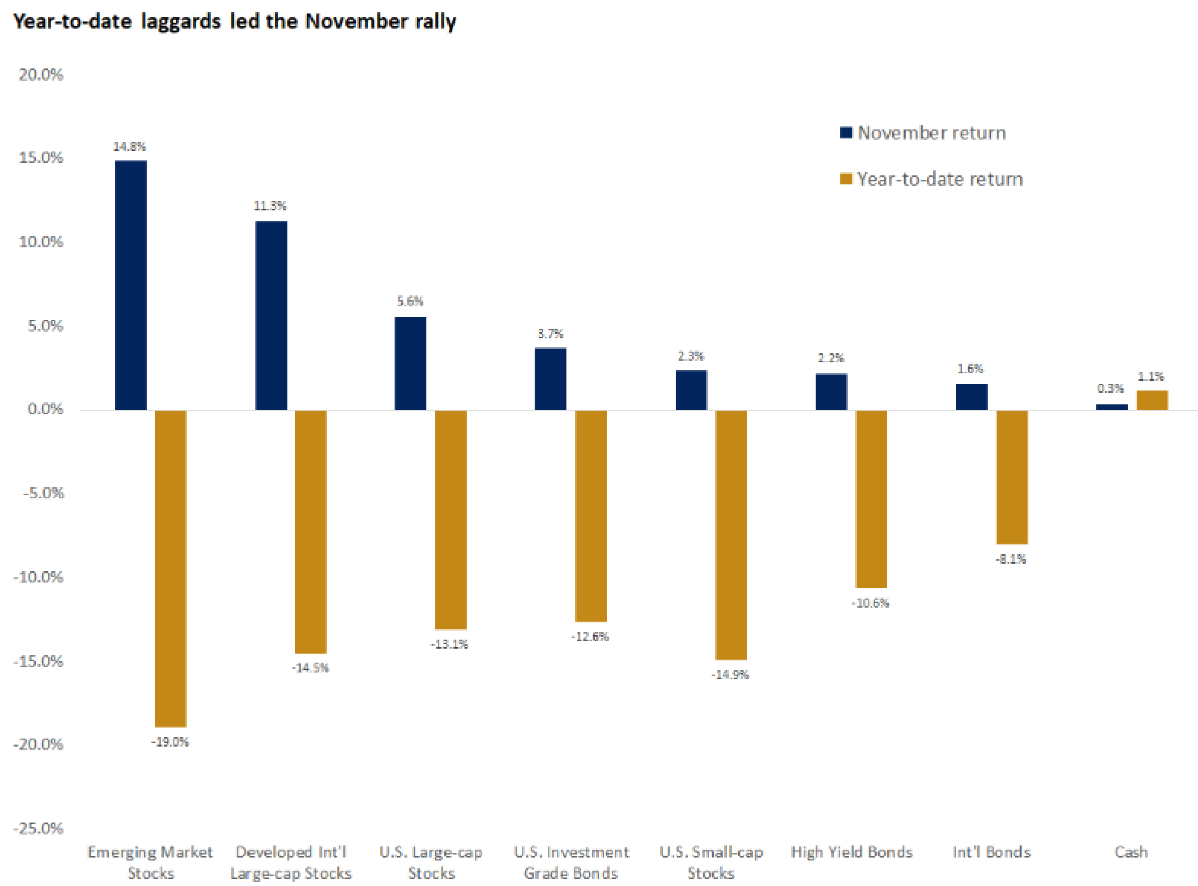
Monday, December 5, 2022

Good afternoon:

November ended on a positive note last week with modest gains in all three major large-cap indices marking the first back-to-back monthly gains in equities in over a year. Many of the year's biggest laggards posted the strongest gains in November on the hopes that perhaps a new bull market may have begun. The few indications that inflation has peaked, and thus the Fed will potentially take a less hawkish stance, are challenged by any piece of economically *positive* data. This was the case with Friday's employment figures, as well as this morning's stronger than expected Institute for Supply Management (ISM®) report. Economic activity in the services sector grew in November for the 30th month in a row — with the Services PMI® registering 56.5 percent — according to the nation's purchasing and supply executives in the latest Services ISM® *Report on Business®*.



Source: Morningstar Direct. Past performance is not a guarantee of future returns.

Although it may seem counterintuitive to many investors, we are in an economic environment where good news may be bad. The fear is that such evidence of continued strength after a year of aggressive rate hikes may prompt the Fed to stay on its current tightening course rather than wait for the lagging slowdown that others say will eventually reveal itself. As a result, markets are down more than 1% in this today's trading. November's CPI and PPI inflation data and the Fed's response to it later this month continue to be the biggest market-moving event on the near-term horizon that will likely determine how we end this year.

The difficult challenge facing the Fed continues into 2023. Having waited far too long to normalize rates (that were slashed to zero during the early days of the pandemic in 2020) when it was clear that the market and the economy were surging in 2021 (with the help of massive cash infusions and pent-up demand), Chairman Powell has been attempting to tamp down a four-decade high rate of inflation without again being blamed for serious missteps. Slamming the breaks on an economy that is surging nearly always results in an overshoot by creating a recession. Generally defined as two quarters in a row of negative GDP, most now concede that the recession we are about to face is simply a matter of degree. Bullish forecasters refer to a predicted flattening of earnings growth as a "soft landing." To accomplish this feat, the Fed will have to moderate their stance soon before a more severe economic contraction is evident.

This is where many in the market part ways in their projections. On one hand, those expecting a soft landing might say that much of the upcoming slowdown is already priced into current stock valuations and that even after a two-month rebound, stocks are fairly-valued and could go higher. However, those expecting a major earnings contraction next year and a more severe recession do not believe stocks have adequately corrected to that weaker economic climate. As a result, we remain cautiously optimistic about a soft landing, but recognize that many risks and unknowns remain. A diversified and defensive approach within equities is therefore still appropriate. Even fixed-income securities have now fallen to levels where their yields are more attractive than they've been in many years.

As we always advise, staying focused on longer-term investment objectives and asset allocation can help investors stay focused on the big picture in difficult periods of market corrections and heightened volatility. We remain very appreciative that you have chosen to work with us as your guides on your family's financial path.

Have a great week!

Mark and Jeff

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Holding stocks for the long-term does not insure a profitable outcome. Investing in stocks always involves risk, including the possibility of losing one's entire investment.

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

https://www.prnewswire.com/news-releases/services-pmi-at-56-5-november-2022-services-ism-report-on-business-301694620.html

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