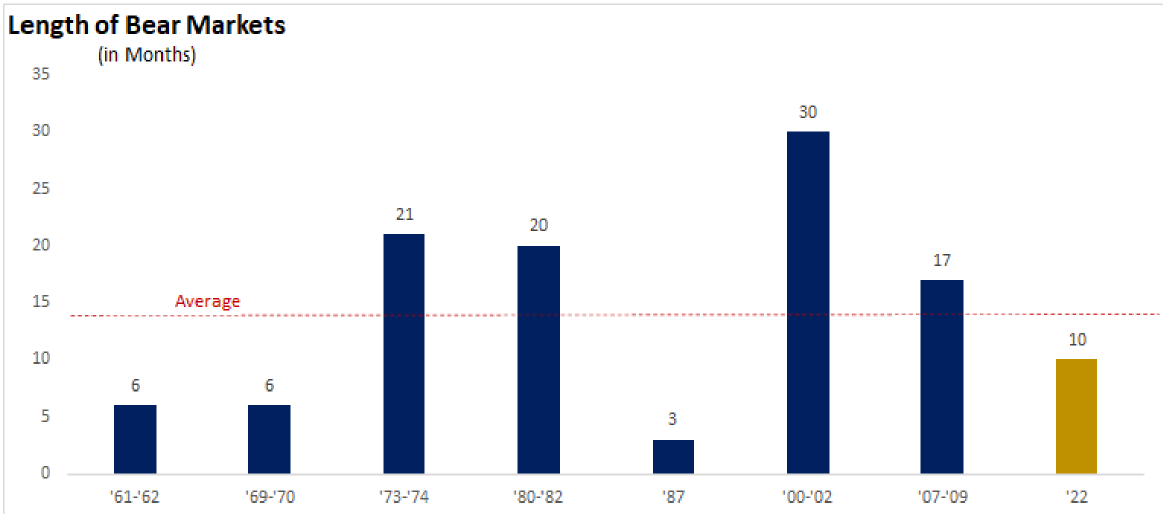
Monday, October 17, 2022

Good morning:

Markets experienced another roller coaster week after September inflation data came in higher than expected. Hopes were high that CPI data would finally start to show some confirmation that inflation has peaked thereby enabling the Fed to consider pivoting to a less aggressive rate hiking posture. Major averages swooned to new 2-year lows on Thursday morning before reversing course and staging a strong midday recovery rally. By week's end, the Dow had gained 1.17% while the tech-heavy NASDAQ lost 3.11%.

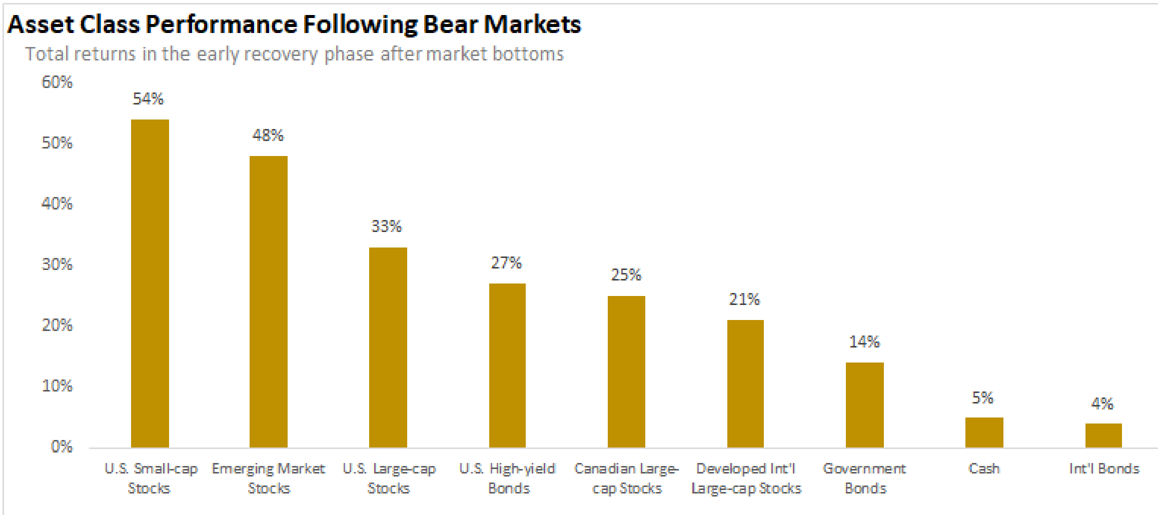
We are starting this week off with a continuation of last week's volatility with all major equity indices higher between 2-4% in early trading. For now, it appears that short-term bearish momentum has subsided and we are entering another phase of equity price recovery perhaps similar to the late-June to mid-August rally. However, this one *could* prove more permanent if something signals a peak in the Fed's rate hiking cycle, as well as the rising rate of inflation. Without a change in monetary policy, some are fearful this may be just another bear market rally that will not signal the ultimate end to our current bear market.

It is important to remember that equity markets do not follow the precise timing of the current economy, but rather react in advance to what is believed to be on the horizon. Stocks will often begin a bull market in the middle of a recession, often to the dismay of many individual investors. As painful and confusing bear markets can be, they do not last forever. Over the past 60 years, the average length of a bear market has been about 13 months. This chart illustrates each such market decline.



Source: Bloomberg, S&P 500 index is unmanaged and cannot be invested in directly, past performance is not a guarantee of future returns.

Our current strong labor market and levels of consumer demand suggest to us that our current bear market, and the likely more widely recognized recession will be more of the mild variety and not resemble the historically long ones of the past. And while much about the market's direction remains data-dependent, the timing of a precise bottom is usually only recognized in hindsight. In recent emails, we have illustrated the historically positive returns of stocks in the one and two-year periods following a bear market. As this chart further shows, some asset classes have performed particularly well in the early stages of a market recovery. Remaining diversified enables portfolios to participate in such returns across a broad array of sectors.



Source: Bloomberg , Indexes shown here are unmanaged and cannot be invested in directly.

While we are not ready to declare an end to this volatile and difficult post-pandemic period of rising rates and falling markets, it is important to stay focused on longer-term objectives and fundamentals. In our continued effort to keep our clients informed and exposed to the varying perspectives of other market strategists, we will be hosting two exclusive client calls in early November—one just before and one after the midterm elections. Be on the lookout for an email invitation in the coming weeks for the specific details on these timely market calls.

Have a great week and enjoy the beautiful fall foliage!

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.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

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The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.

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Investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss.

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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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