MONTHLY MARKET UPDATE

November 2022

OPAL WEALTH ADVISORS

The primary driver for November was inflation related as signs of peaking price inflation enabled the Fed to shift the narrative toward a less aggressive tightening path. Sticky wage inflation and a tight labor market remained a key focus. U.S. elections produced a divided Congress with slowing economic data and 'compromise' fiscal policy filling out the backdrop. China's 'zero-Covid' policy was in flux during the month with slightly relaxed quarantines countered by surging cases and widespread social protests in response to new lockdown policy measures.

Markets welcomed cooler inflation trends in November with most financial assets generating above average returns in the month following strong returns in October. Non-U.S. markets handily outpaced the U.S. as developed international markets rallied 11.3% in a very broad-based move while emerging markets benefited from a big recovery rally in China (+29.7%) and emerging Europe. The S&P 500 rallied 5.6% in November to take YTD losses to 13%, still on pace for the worst year since 2008, while the interest rate sensitive NASDAQ recovered 4.5%, leaving it down a whopping 26% for the year. Interestingly, the equal-weight S&P 500 is down only 7.5% for the year and the DJIA technically exited bear market territory, up over 20% from the September 30th lows.

November saw the bond market notch a sizable recovery with the Barclays Aggregate returning +3.7% and Global Aggregate's +4.7% marking its fourth best monthly return on record. The 10-year US Treasury experienced its largest one-month decline since March 2020 but still left the U.S. bond market solidly in its worst year on record as 2022 draws to a close.

Market Anecdotes

- Bespoke notes the S&P's 3.09% one-day gain to close out November is the largest gain on the last trading day of a month since November of 2011.
- It's been a year to forget for the trillion-dollar market cap club. An equally-weighted basket of AAPL, AMZN, GOOGL, MSFT, META, and TSLA is down 37% through November compared to -13% for the S&P and -7.5% for the equal-weight S&P.
- Given slowing growth forecasts and profit margin pressures, it's no surprise we've seen analysts reducing 4Q and 2023 earnings estimates but reduced earnings estimates against a rally in stock prices (Oct/Nov) has taken the fwd P/E multiple from 15.2x to 17.6x since September 30.
- The peak inflation narrative and associated monetary policy indications have translated to strong equity/bond market recoveries and a declining USD while the sharp decline in longer-term interest rates and degree of yield curve inversion are signaling growth concerns in later 2023.
- FOMC meeting minutes reinforced the view that the pace of Fed tightening will slow in December and pause sometime in Q1 or Q2 of next year.
- Bespoke noted massive state, local, and federal (IRA) tax subsidies have triggered significant EV capex as evidenced by GM and Ford earnings reports noting large scale build outs of the U.S. EV and battery production manufacturing and technology development.
- The recent roll-over in the USD since 9/27 has benefited Russell 1000 names that generate >50% of their revenues abroad to the tune of +18.3% vs 15.4% for the Russell 1000. Conversely, stocks with wholly domestic revenues are only up 11.8% during that period.
- Central bank gold purchases in the third quarter were the largest on record per the World Gold Council, one of the only shiny objects in the gold patch we have seen this year.
- U.S. midterm elections (likely?) produced the expected result with a gridlock Congressional outcome moderating both Democrat and Republican agendas, a net positive for the markets.

Economic Release Highlights

- November payrolls of 263,000 came in well above consensus estimates of 200,000, near the

high end of the range and the unemployment rate remained at 3.7%. Labor market participation declined two ticks to 62.1% and average hourly earnings (MoM 0.6% vs 0.3%) came in hot.

- The JOLTS report showed job openings falling further than expected (10.334mm vs 10.5mm) and down notably from the prior month reading of 10.687mm.
- Good news continues to be good news on the inflation front as Headline and Core CPI both came in cooler than expected for YoY (7.1% vs 7.3% and 6.0% vs 6.1%) and MoM (0.1% vs 0.3% and 0.2% vs 0.4%).
- The PIO report revealed YoY headline and core inflation of 6.0% vs 6.0% and 5.0% vs 5.0% alongside MoM readings of 0.3% vs 0.4% and 0.2% vs 0.3%. Personal Consumption Expenditures remained strong (0.8% vs 0.8%) and Personal Income growth of (0.7% vs 0.4%) accelerated.
- Retail Sales handily beat consensus estimates on the headline (1.3% vs 1.0%), Ex-Vehicles (1.3% vs 0.5%), and Ex-Vehicles & Gas (0.9% vs 0.2%).
- Industrial Production came in slightly below expectations on the headline (-0.1% vs 0.2%) and Manufacturing Output (0.1% vs 0.2%) measures.
- Durable Goods Orders exceeded expectations on the headline (1.0% vs 0.4%), ex-transportation (0.5% vs 0.1%), and core capital goods (0.7% vs 0.2%).
- November U.S. PMIs (C, M, S) of 45.3, 47.6, 46.1 slid a little deeper into contraction territory and fell short of consensus estimates. Eurozone PMIs of 47.8, 47.3, 48.6 improved slightly and surpassed expectations.
- November's ISM Manufacturing Index came in slightly below forecasts and dipped into contractionary territory (49.3a vs 49.9e). S&P Global PMI declined 2.7 points to 47.7.
- November ISM Services index registered 56.5, higher than the consensus estimate (53.5) and above the high end of the range (51.5-56.0).
- Consumer Confidence registered 100.2 versus consensus estimate of 100.0. The final revision on UofM Consumer Sentiment at 56.8 came in above the consensus range and point estimate of 55.
- The Case-Shiller Home Price Index came in around consensus estimates for the MoM (-1.2% vs -1.2%) and YoY (10.4% vs 10.9%). New Home Sales of 632k came in above the consensus range and point estimate of 575k. Pending Home Sales fell slightly less than expected (-4.6% vs -5.0%).
- The Housing Market Index fell five points to 33, missing the consensus forecast of 36. Housing Starts & Permits of 1.425mm and 1.526mm respectively were slightly above consensus estimates as were Existing Home Sales of 4.43mm.

Outlook

The key underpinning of the October/November risk asset rally (the Fed pivot) is still far from clear with sticky wage inflation and a very tight labor market/healthy consumer posing tangible risks to a more accommodative monetary policy path. We do feel the global tightening cycle is at an inflection point but also acknowledge the Fed's specific need to see a slowdown in the U.S. labor/wage markets along with decelerating inflation trend data to substantiate a pause. This leaves the FOMC in a very difficult position as it attempts to engineer a 'soft landing.' Looking forward, we see recession risks more prevalent in the spring/summer next year, but a recession is still not a foregone conclusion.

Given the strong rally in risk assets off the September lows, notable slowing economic growth, and perhaps overly complacent forecasts of forward inflation trends, we are continuing to recommend a tight neutral position toward equities relative to respective benchmarks with routine rebalancing into pockets of strength. From a geography perspective, our investment committee recently upgraded developed international markets to neutral based on a budding trend change in the USD, dramatically cheaper valuations, and marginally reduced geopolitical risk (China, Ukraine).

Interest rate moves may calm over the next several months, but we see potential upside risks out into mid/later 2023. Fixed income investors should maintain a slightly short duration bias and remain overweight credit sectors with the exception of bank loans which we recently downgraded based on concern surrounding rising interest rates presenting financial pressure on companies (higher debt service obligations).

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	34590	6.04	10.36	(2.89)	2.48	9.50
NASDAQ	11468	4.51	(2.72)	(26.13)	(25.59)	10.66
S&P 500	4080	5.59	3.63	(13.10)	(9.21)	10.91
Russell 1000 Growth		4.56	(0.09)	(23.26)	(21.64)	11.79
Russell 1000 Value		6.25	6.87	(3.65)	2.42	8.40
Russell 2000		2.34	2.71	(14.91)	(13.01)	6.44
Russell 3000		5.22	3.29	(14.18)	(10.80)	10.28
MSCI EAFE		11.28	6.36	(14.11)	(9.70)	2.39
MSCI Emg Mkts		14.85	(1.70)	(18.64)	(17.07)	0.51
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.02	(0.01)	0.16	0.25	0.39	(0.47)
High Yield	5.11	(0.07)	0.26	0.84	1.09	0.02
Municipal	1.65	(0.08)	0.01	(0.07)	0.05	(0.32)

Commodities	11/30/22	9/30/22	6/30/22	3/31/22
Oil (WTI)	72.96	79.91	107.76	100.53
Gold	1753.50	1671.80	1817.00	1942.20

Currencies	11/30/22	9/30/22	6/30/22	3/31/22
USD/Euro ($/€)	1.04	0.97	1.04	1.11
USD/GBP ($/£)	1.20	1.11	1.22	1.32
Yen/USD (¥/$)	139.31	144.71	135.69	121.44

Treasury Rates	11/30/22	9/30/22	6/30/22	3/31/22
3 Month	4.37	3.33	1.72	0.52
2 Year	4.38	4.22	2.92	2.28
5 Year	3.82	4.06	3.01	2.42
10 Year	3.68	3.83	2.98	2.32
30 Year	3.80	3.79	3.14	2.44

Style Returns

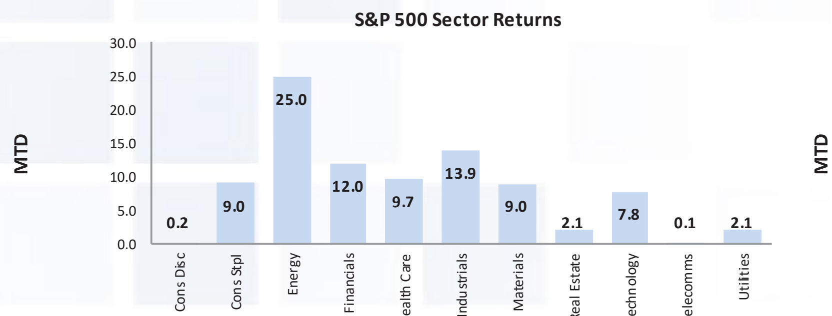
MTD

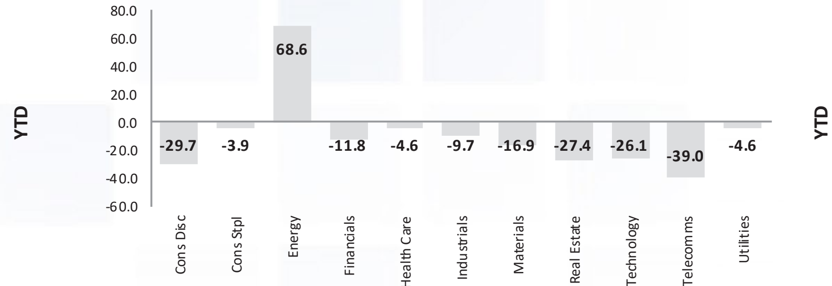
	V	B	G
L	6.25	5.41	4.56
M	6.32	6.01	5.44
S	3.06	2.34	1.63

YTD

	V	B	G
L	-3.65	-14.13	-23.26
M	-7.32	-12.59	-22.04
S	-8.48	-14.91	-21.31

S&P 500 Sector Returns





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