

OBSERVATIONS

- The S&P 500 closed out a positive week—its fourth consecutive week of gains— and has now rallied by nearly +9.1% since reaching and retesting this year’s lows earlier in the month.¹
- The initial Purchasing Manager data (PMIs) paint a grim picture of the Eurozone economies, with measures of both services and manufacturing firmly in contraction territory. The composite PMI fell to 47.1 with notable weakness in the manufacturing data, which stands at a 29-month low.²
- China Q3 GDP grew at +3.9% year-over-year (YoY), better than expectations of +3.3%—below the country’s official target of +5.5%. Still, the +3.9% is a marked pick up from Q2 GP readings of just +0.4% YoY as the economy faced lockdowns from the country’s zero-Covid policy.³
- The Bank of Canada (BoC) raised its headline policy rate 50 basis points to 3.75% last week, which was less than the 75 basis point hike markets expected. Nonetheless, the BoC reiterated its commitment to lowering inflation back down to its 2% target.¹
- The European Central Bank (ECB) raised its main benchmark rate by a widely expected 75bps to 2.00%, the highest rate for the European Union since February 2009.¹
- New home sales decreased by 10.9% in September to 603,000 (seasonally adjusted annualized rate) from the August figure of 677,000. New housing inventory has risen to 462,000—over 9 months annual sales, which are levels not seen since the housing crisis of 2008-2009.⁴
- After contracting in Q1 and Q2, the US economy rebounded in Q3 and grew by +2.6% on an annualized basis largely due to lower imports and higher exports, but consumer spending only grew by +1.4% compared to +2.0% registered in Q2 suggesting that the US consumer is becoming more cautious.¹

EXPECTATIONS

- The UK Tory (Conservative) Party named Rishi Sunak its new leader last week and subsequently elected him to be the UK Prime Minister replacing Liz Truss who resigned two weeks ago. Sunak, a former Chancellor of the Exchequer (Treasury Secretary equivalent) has promised a more modest set of fiscal policies that balance the need of protecting its citizenry from the ongoing energy crisis without jeopardizing the long-run credit worthiness of the UK government.⁵
- About half of the S&P 500 has reported Q3-earnings. Of these firms about 71% have beat earning estimates, which is below long-run averages for beats. However, several high-profile earnings misses have dominated the headlines with Amazon, Alphabet, Microsoft, and Meta all coming in below expectations.⁶

ONE MORE THOUGHT: China’s 20th Communist Party Congress: Maximum Xi

China concluded its 20th Communist Party Congress last week and it was a showcase for the grip that Xi Jinping has on the party and the country. Typically, General Secretaries of the Chinese Communist Party (CCP) only serve two, five-year terms for a total of 10 years in power. However, Xi orchestrated the removal of the law that enshrined that principle in 2018, which paved the way for him to accept a third, five-year term that will leave him in control of China until at least 2027. Moreover, the other six members of the CCP Politburo Standing Committee—the highest

¹ Bloomberg LP

² Oxford Economics Eurozone update, 10/24/2022

³ <https://www.cnbc.com/2022/10/24/china-third-quarter-gdp.html>

⁴ <https://www.census.gov/construction/nrs/pdf/newresales.pdf>

⁵ <https://www.ft.com/content/b2aac231-091a-4953-8843-cf84c38c1260>

⁶ Factset Earnings Insight 10/28/2022

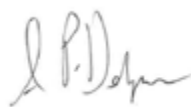
governing body in China—were named last week and each of them are Xi loyalists (See Chart of the Week). Equally, former premier Lie Keqiang—who was previously number 2 in the CCP but seen as a holdover from Xi’s predecessor Hu Jintao—and Vice Premier Wang Yang were both ousted and expected to retire. A frail, 79-year-old Hu Jintao, himself, was forcibly removed from the final day of proceedings, officially due to ill-health, but many speculate that it was because he was unlikely to clap and applaud the new leadership lineup. Meanwhile, Xi Jinping’s speech to the CCP leadership reinforced his commitment to eventual reunification with Taiwan, greater self-reliance with regard to technology, food, and industrial supply-chains, while bolstering national security and economic development. The nearly 2-hour speech did not signal a change to China’s zero-Covid policy, nor provided any desire to reset relations with the US. In short, the 20th CCP Congress doubled-down on Xi’s core policies from the past few years, which have been marked by repression of political discourse at home, pressure on China’s non-Han minorities, more regulation of the private sector, and a more assertive China abroad that seeks to establish a multi-polar world governed by rules favorable to the CCP’s unfettered rule of China and its ability to heavily influence, if not dictate, the socio-political dynamics in the broader East Asian region.

CHART OF THE WEEK

20th Politburo Standing Committee of the Chinese Communist Party (CCP)				
Name	Previous Position	New Position	Relationship w/ Xi Jinping	Age
Xi Jinping	General Secretary of the Central Committee (CCP), Chairman of the Central Military Commission (CMC), President of the PRC	General Secretary of the Central Committee (CCP), Chairman of the Central Military Commission (CMC), and expected to be named President of the PRC in March-2023		69
Li Qiang	Party Secretary of Shanghai	Expected to be named Premier of State Council in Mar-2023	Worked w/ Xi Jinping in Zhejiang Province; Xi protégé/former chief of staff	63
Zhao Leji	Secretary of the Central Commission for Discipline Inspection	Expect to be named Chairman of the Standing Committee of the National People’s Congress (NPC)	Family ties to Xi Jinping; longtime Xi loyalist	65
Wang Huning	Primary Secretary of the CCP Central Secretariat, Head of the Central Policy Research Office	Expected to be named Chairman of the National Committee of the Chinese People’s Political Consultative Conference (CPPCC) and retain position as Head of the Central Policy Research Office	Close Xi confidant on foreign policy and socio-political discourse	67
Cai Qi	Party Secretary of Beijing	Primary Secretary of the CCP Central Secretariat	Worked w/ Xi Jinping in Fujian and Zhejiang Provinces	66
Ding Zuexiang	Director of the General Office of the CCP	Expected to be named Primary Vice Premier of the State Council	Worked w/ Xi Jinping in Shanghai; current chief of staff to Xi Jinping	60
Li Xi	Party Secretary of Guangdong	Secretary of the Central Commission for Discipline Inspection	Family ties to Xi Jinping since 1990s	66

 Denotes new CCP Politburo Member

Source: Clearstead, Economist, Brookings Oct-2022



Anet Deshpande, CFA
Chief Strategist
Clearstead



Dan Meges
Managing Director of Equity
Clearstead

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