

OBSERVATIONS

- The S&P 500 had its best day since 2020 after jumping +5.6% after Thursday's better than expected inflation reading. The rally was broad based though the oversold tech sector contributed to 40% of the day's gains.¹
- Headline inflation (CPI) rose less than expected, rising +0.4% month-over-month (MoM) and is now +7.7% year-over-year (YoY) which stands as a four-month low. Excluding food and energy, so called core inflation rose +0.3% MoM and +6.3% YoY—also lower than expectations of +0.5% and 6.5%, respectively.²
- Wholesale used car prices (Manheim Used Car Index) dropped -2.2% in October from September and with the index now -10.6% lower than one year ago.³
- The DOJ seized over 50,000 Bitcoins in connection with a former dark web marketplace—known as Silk Road. The initial theft occurred in 2012 and ballooned to over \$3.5 billion in value when Bitcoin was trading at its highs. Still, at today's nearly \$1 billion in value the seizure ranks as the DOJ's second largest ever.⁴
- Meanwhile, the second largest crypto exchange, FTX, filed for bankruptcy after sustaining a run on its native token, and withdrawals led to its demise. The company was last valued at \$32 billion after raising \$900 million last year, mostly from prominent venture capital investors.⁵
- China producer prices fell -1.3% in October on a year-over-year (YoY) basis. That marks the first YoY decline since December 2020. Though somewhat driven by base effects (higher levels one year ago), the data lines up with a slower global economy, albeit somewhat backwards looking.⁶
- Small business optimism declined modestly in October to 91.3 but remains above the June-low of 89.9—the lowest reading in a decade. Despite the rising interest rate environment and worries about a recession small businesses report inflation and labor shortages are the most acute problems.⁷

EXPECTATIONS

- Announced layoffs are beginning to grow as the likes of Meta, Twitter, Salesforce, Robinhood, Wayfair, Peloton, Shopify, Re/Max and others announce plans to reduce their respective workforces. Layoff announcements are starting to spread across industries amidst slowing growth. Evidence of the labor market weakening is likely to first show in jobless claims, which to date we have not observed. Claims remain near multi-decade lows with the four-week moving average at 218,000 (as of last week).¹
- Russian Ministry of Defense announced that it was pulling its troops out of Kherson and in effect abandoning its positions on the west bank of the Dnipro River. Ukrainian troops secured the Kherson late last week and Ukrainian President Zelensky visited the liberated town over this past weekend.⁸ Despite the recent Ukrainian gains, we expect fighting to continue throughout the winter months and into the Spring.

ONE MORE THOUGHT: Final Results Still Pending, But A Republican House Looks Certain

The midterm elections are over, but the outcome of the election is still not fully known. What does seem clear is that the Republican party has gained enough seats to take narrow control of the House of Representatives. House

¹ Bloomberg LP

² <https://www.bls.gov/news.release/cpi.nr0.htm>

³ <https://publish.manheim.com/en/services/consulting/used-vehicle-value-index.html>

⁴ https://www.wsj.com/articles/justice-department-announces-seizure-of-3-36-billion-in-bitcoin-11667845419?mod=markets_lead_pos2

⁵ CNBC, Bloomberg LP, Coindesk

⁶ <https://www.wsj.com/articles/china-producer-prices-turn-negative-in-warning-sign-for-global-economy-11667981170>

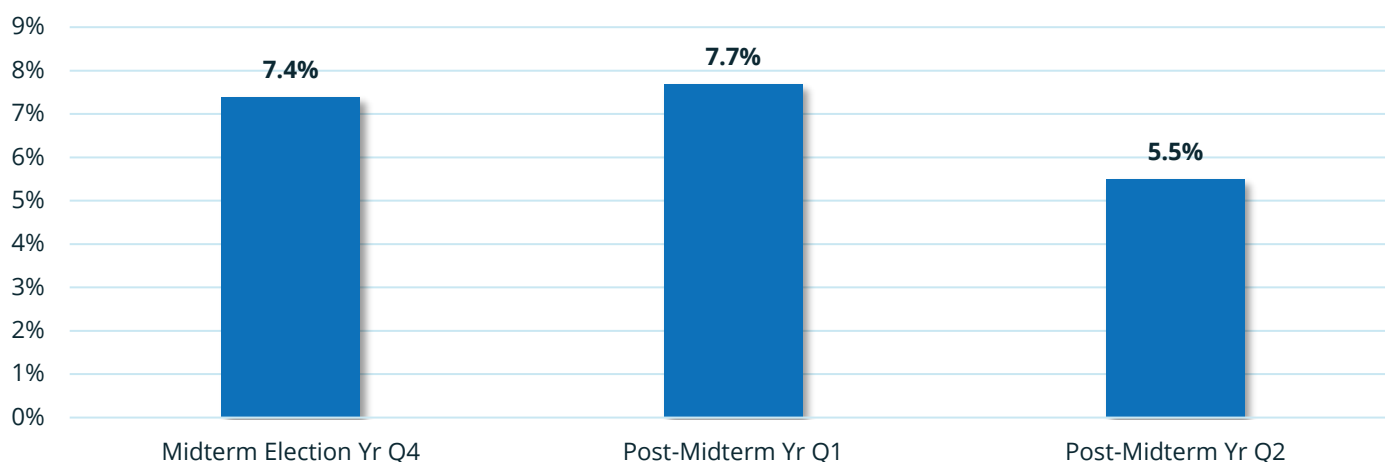
⁷ <https://www.nfib.com/content/press-release/economy/small-businesses-struggle-with-inflation-labor-shortages/>

⁸ <https://www.understandingwar.org/backgrounder/russian-offensive-campaign-assessment-november-9>

Republicans are expected to number about 221 versus 214 for House Democrats—a few house races are still pending amid absentee ballot counting. The Georgia Senate race is headed to a runoff-election set for December 6, 2022, but it looks like Democrats will retain control of the Senate regardless. Democrats look to have at least 50 seats having flipped Pennsylvania and likely to hold on to Arizona and Nevada. Meanwhile the US government is quickly approaching the debt limit—expectations that it bumps up against the legal debt limit by late December or early January depending upon some account maneuvers. It is possible that Congress will raise the debt limit during its lame-duck sessions over the coming weeks, but if it doesn't expect a showdown between the newly Republican controlled House and the Biden administration. Assuming the debt-limit issue ultimately gets resolved, US equity markets typically receive a post-midterm bump. Clearstead analysis (See Chart of the Week) looking at midterm election year S&P 500 returns from 1946 to 2018 shows that the current quarter as well as the next two quarters typically show above-average equity returns. Deutsche Bank Research examined US midterm results dating back to 1871 and reached the same conclusion that some of the best quarterly returns of every 4-year presidential cycle occur during Q4 of the midterm election year and the following two quarters.

CHART OF THE WEEK:

S&P 500 Average Midterm Year Returns 1946-2018



For the S&P 500 Index the Midterm-year Q4 (+7.4%), and subsequent two quarters (Q1 +7.7% and Q2 5.5%) compared to non-midterm year averages of Q4 (+3.8%) and subsequent two quarters (Q1 +1.2% and Q2 +3.1%).

Source: Clearstead, Bloomberg, "Midterm elections' stock market surge – an unintentional gift from US politicians" SSRN 2018; past performance is not an indicator of future results; investors cannot directly invest in an index..

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