

This month's Market Minute reflects the views of our Investment Office and was composed by [Aneet Deshpande, Senior Managing Director, Chief Investment Strategist](#)



### OVERVIEW

November was, in short, a good month for most asset classes. In equities, bear market rallies continued from late September's 2022 lows. The US dollar declined throughout November, helping boost returns of international equity markets relative to US equity markets. Fixed income markets also rose in the month, benefiting from modest declines in interest rates across most of the yield curve and tighter spreads in corporate credit and Emerging Markets. In other, perhaps less relevant news, the cryptocurrency ecosystem was dealt a big blow as the [FTX collapse](#) sparked fears of contagion in those markets. Traditional markets (currencies, bonds, and stocks) shrugged off the news as the connection between crypto lenders (such as FTX) to traditional markets, and the global financial system at large, remains benign in our view.

### U.S. EQUITY MARKETS As of November 30, 2022

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	6.0%	21.0%	-2.9%	2.5%
S&P 500	5.6%	14.1%	-13.1%	-9.2%
Russell 2000	2.3%	13.6%	-14.9%	-13.0%
Russell 1000 Growth	4.6%	10.7%	-23.3%	-21.6%
Russell 1000 Value	6.2%	17.1%	-3.7%	2.4%

Domestic stocks continued their bear market rally with the S&P 500 gaining +5.6% in the month and reaching the upper part of the range (3,600 to 4,000) that the index has experienced over the last six months.<sup>1</sup> During November, all eleven sectors in the S&P 500 were positive, led by the materials (+11.8%), financials (+7.0%), and utilities (+7.0%) sectors.<sup>1</sup> Small cap stocks lagged their large cap brethren with the Russell 2000 index gaining +2.3% in the month. From a style perspective, large cap value-oriented stocks (Russell 1000 Value Index +6.2%) bested large cap growth stocks (Russell 1000 Growth Index +4.6%).<sup>1</sup>

From a corporate earnings perspective, expectations continue to drift lower as downward revisions continue to be a theme as higher costs weigh on profit margins. For this Q4, analyst projections are calling for earnings to decline on a year-on-year basis, by -2.1%—though sales are expected to rise by +4.5%.

## **INTERNATIONAL EQUITY** As of November 30, 2022

### INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	11.8%	15.1%	-15.4%	-11.9%
MSCI EAFE	11.3%	17.2%	-14.5%	-10.1%
MSCI Emerging Markets	14.8%	11.3%	-19.0%	-17.4%
MSCI EAFE Small Cap	9.9%	14.6%	-22.2%	-18.8%

International markets had robust gains in November, buoyed by a weaker dollar. The DXY US Dollar index suffered its worst month since 2010, though the declines come after a significant rally in the dollar throughout much of 2022. The month saw developed international equity (MSCI EAFE Index) post returns of +11.3% while emerging markets (MSCI Emerging Markets Index) were up +14.8%.<sup>1</sup>

From a country standpoint, China (MSCI China) rallied over by +29.7% in November<sup>1</sup> as markets digested positive developments around the country's beleaguered property sector—specifically the announcement of a 16-point plan to rescue troubled property developers as well as increasing liquidity into the broader financial system. Investors also seem inclined to think that China has entered the point of no return with its zero-Covid policy and that a change is likely forthcoming, either by force or choice. The government has boosted vaccination efforts and eased some Covid-lockdown provisions, while sporadic anti-Covid lockdown protests have erupted in several Chinese cities signaling widespread dissatisfaction with Beijing's zero-Covid policy.

Elsewhere, Eurozone and UK markets fared well as the Euro jumped against the dollar in the month. Germany (DAX Index) rose +13.3%, France (CAC Index) gained +12.3%, and the UK (FTSE 100 Index) posted returns of +11.6% in November.<sup>1</sup> European equities were boosted by a strengthening Euro, better than expected Q3 growth numbers, and the first signs that inflation in Europe may have peaked.

## **FIXED INCOME** As of November 30, 2022

### FIXED INCOME MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	3.7%	2.3%	-12.6%	-12.8%
BarCap Global Aggregate	4.7%	4.0%	-16.7%	-16.8%
BarCap US High Yield	2.2%	4.8%	-10.6%	-9.0%
JPM Emerging Market Bond	6.9%	7.0%	-16.8%	-15.6%
BarCap Muni	4.7%	3.8%	-8.8%	-8.6%

As bond market investors clamor for more boring days in bond markets like the days of old, some reprieve occurred in the month with positive returns experienced by most fixed income indices. The Bloomberg Aggregate Index was up +3.7% as interest rates fell across most of the yield curve (three years and out), with the 2-Yr and 3-month US treasury yields serving as the exception. The 10-Yr US Treasury yield dropped from 4.05% to 3.61% as the market once again began to contemplate a pivot in Fed policy, a likely incorrect assumption for Fed policy. Meanwhile the 3-Month U.S. Treasury yield rose nearly 28bps to 4.35% in anticipation of December's rate hike.<sup>1</sup>

A higher risk appetite was evident across credit markets as spreads tightened in investment grade, high yield, and emerging market debt markets. The combination of lower rates and tightening spreads led to +5.2% returns for investment grade bonds (Bloomberg Investment Grade Index) and gains of +2.2% for the Bloomberg High Yield Index. The star of the month was Emerging Market debt thanks to much tighter spreads throughout the month, and the JP Morgan Emerging Market Bond Index gained +6.95% as a result.<sup>1</sup>

## **CONCLUSION**

In last month's Market Minute Tom Seay pointed out that "The Fed has made it clear their objective is to drive down the rate of inflation from a current rate exceeding 5.0% (core-PCE Price Index) to 2.0%. In that the unemployment rate is at a low level of 3.5%, the Fed appears to have the leeway to continue to raise rates." It is worth reinforcing this point as many investors continue to look for a pivot from the Fed, those investors are likely to be disappointed.

## **CONCLUSION CONTINUED**

Our view is that there is a likelihood that the Fed could pivot indeed, but not in the way those investors are thinking (i.e., reducing policy interest rates). The more likely scenario in our mind is rates go higher still, though at a slower pace, and remain there (just as all the Fed speakers reinforced over recent weeks), and the pivot may well arise in the lifting of the inflation target rate above its current 2.0% target. In the history of the inflation data as measured by Personal Consumption Expenditures (PCE – the fed’s preferred inflation indicator), PCE has averaged less than 2.0% on just 40% of rolling 3-Yr, 5-Yr, and 10-Yr periods.<sup>1</sup> Backwards looking analysis is further complicated by the very distinct inflation regimes of the late 1960’s through to the early 1980’s when PCE averaged 6.0%, which stands in stark contrast to the inflation regime of the late 90’s to pre-Covid when PCE averaged less than 2.0%.<sup>1</sup> Absent another significant deflationary shock like the Great Financial Crisis, the path to 2.0% is likely to take much longer to get to than many expect. This could otherwise lead the Fed to hold a restrictive policy stance for too long and so adjusting the target policy rate higher seems logical. Afterall, the Fed calls it a flexible average inflation target.

In the meantime, given the conundrum the Fed is left with as noted above, we expect fixed income and equity markets to remain choppy and generally rangebound in coming weeks. As we turn into the next calendar year, we will be providing our 2023 outlook in the Clearstead January Clearpoint.

### **SOURCES**

<sup>1</sup> Bloomberg, Factset Earnings Insight, November 18, 2022, <https://www.scmp.com/business/china-business/article/3201486/hong-kong-stocks-head-best-month-1998-china-covid-pivot-bets-stimulus-reverse-economic-slump>

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