

*In this month's recap: Stocks posted big gains in October as "old economy" names reported solid earnings while mega-cap techs struggled.*

# Monthly Economic Update

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*Presented by Frank DeMaio, November 2022*

## U.S. Markets

Stocks posted big gains in October, propelled by better-than-expected corporate reports.

The Dow Jones Industrial Average led, gaining 13.95 percent. The Standard & Poor's 500 Index tacked on 7.99 percent, while the Nasdaq Composite added 3.90 percent.<sup>1</sup>

## A Volatile Few Weeks

October opened with a powerful two-day rally, but the momentum faded. News that Britain's prime minister had reversed her tax cut proposal helped spark the rally, but the gains were erased on renewed fears of higher interest rates and possible recession.<sup>2</sup>

Market volatility accelerated when a higher-than-expected consumer inflation number sent stocks tumbling in early trading before inexplicably staging a massive reversal that saw the Dow Industrial rally 1,500 points from its intraday low.<sup>3</sup>

## Earnings Spark Rally

As earnings season opened mid-month, investors put aside worries about Fed policy and recession to focus on how companies fared in the third quarter.

By the end of October, 263 companies in the S&P 500 index had reported earnings, and 73.4 percent had topped Wall Street analysts' estimates – above the 66 percent long-term average. Sales rose by 10.3 percent, but much of that gain was attributed to the effects of inflation.<sup>4</sup>

## Mega-Cap Tech Blues

Several mega-cap technology names checked in with disappointing earnings for the quarter and provided weak guidance for the months ahead. The news surprised some investors and resulted in lower stock prices.

## Old Economy Names Sparkly

While the mega-caps struggled with declining advertising, poor expense management, and a deceleration in cloud-computing growth, some “old economy” names checked in with quarterly numbers that were above expectations. For instance, in the industrials industry group sector, 83 percent of companies reported earnings above expectations compared with the 73.4 percent average.<sup>5</sup>

This divergence in third-quarter earnings between mega-cap tech and old economy names contributed to the wide dispersion in performance between the Dow Industrials and Nasdaq Composite this month.

## Sector Scorecard

All industry sectors notched gains in October, with gains in Communications Services (+0.67 percent), Consumer Discretionary (+1.11 percent), Consumer Staples (+9.01 percent), Energy (+24.97 percent), Financials (+11.92 percent), Health Care (+9.61 percent), Industrials (+13.89 percent), Materials (+8.93 percent), Real Estate (+2.00 percent), Technology (+7.85 percent), and Utilities (+1.94 percent).<sup>6</sup>

## What Investors May Be Talking About in November 2022

November will be a busy month for investors.

First, the market will be digesting another Fed change to interest rates and the outcome of the midterm elections. Investors will also be getting updates on inflation and the labor market.

The Consumer Price Index is set for release on November 10th, and investors will be anxious to see if inflation is moderating. The Producer Price Index will be released on November 15th, providing insights into the cost pressures producers of goods and services face.

In addition, investors' attention is expected to be focused on monthly employment reports and the weekly initial jobless claims. Trends in the job markets and wage growth will play a role in the Fed's future decisions about interest rates.

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## TIP OF THE MONTH



*Collaboration among investment, legal, and accounting professionals may make a big difference in the scope and execution of a financial strategy.*

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### World Markets

Overseas markets rebounded in October, as political uncertainty in the UK started to get resolved and energy security in Europe improved. For the month, the MSCI EAFE Index picked up 5.26 percent.<sup>7</sup>

In Europe, Italy rose 9.7 percent, and Germany gained 9.41 percent. Elsewhere, France tacked on 8.75 percent, and Spain advanced 8.0 percent. The UK lagged, adding less than 3 percent.<sup>8</sup>

Pacific Rim markets were mixed. Hong Kong dropped 14.72 percent due to investor concerns following the meeting of China's Communist Party. Meanwhile, Japan rallied 6.36 percent, and Australia advanced 6.01 percent. Mexico also caught the eye, picking up nearly 12 percent.<sup>9</sup>

### Indicators

**Gross Domestic Product:** The initial estimate of third-quarter GDP growth came in at an annualized rate of 2.6 percent, exceeding economists' consensus of a 2.3 percent estimate.<sup>10</sup>

**Employment:** Employers added 263,000 jobs in September as the unemployment rate fell to 3.5 percent. Wage growth of 5 percent in September was below August's gain of 5.2 percent. Labor force participation rate slipped to 62.3 percent.<sup>11</sup>

**Retail Sales:** Consumer spending was flat in September compared to August, but spending was 8.2 percent higher than a year ago.<sup>12</sup>

**Industrial Production:** Industrial production rose 0.4 percent in September, while capacity utilization increased to 80.3. Capacity utilization was 0.7 percent above its long-term average.<sup>13</sup>

**Housing:** Housing starts dropped 8.1 percent in September as higher mortgage rates tempered demand for new homes.<sup>14</sup>

September's existing home sales slipped 1.5 percent month-over-month while falling 23.8 percent year-over-year. It was the eighth consecutive month that sales declined.<sup>15</sup>

New home sales fell 10.9 percent while posting a 17.6 percent decline from a year ago. The median sales price rose, though it remains below the record high of July.<sup>16</sup>

**Consumer Price Index:** Prices increased 0.4 percent in September. The year-over-year increase was 8.2 percent. Core inflation (excluding energy and food) rose 0.6 percent in September and was higher by 6.6 percent from a year ago. The annual gain in core prices was the highest in 40 years.<sup>17</sup>

**Durable Goods Orders:** Orders for long-lasting goods rose 0.4 percent. Civilian aircraft orders led to the sixth-monthly increase in durable goods orders in the last seven months.<sup>18</sup>

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#### QUOTE OF THE MONTH



*“Your time is limited, so don't waste it living someone else's life.”*

STEVE JOBS

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## The Fed

Minutes from September's Federal Open Market Committee (FOMC) meeting reflected members' concern over persistently high inflation.<sup>19</sup>

The FOMC members agreed that additional rate hikes would keep inflation from becoming embedded into the economic landscape and help prevent greater economic pain in the long run. Several members also expressed worries that overdoing such rate increases might raise the risk of economic and financial market volatility.<sup>19</sup>

MARKET INDEX	Y-T-D CHANGE	October 2022
DJIA	-9.92%	13.95%
NASDAQ	-29.77%	3.90%
S&P 500	-18.76%	7.99%

BOND YIELD	Y-T-D	October 2022
10 YR TREASURY	2.57%	4.08%

Sources: Yahoo Finance, October 31, 2022.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

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## THE MONTHLY RIDDLE



*I'm dressed in a golden jacket. I take it off abruptly, accompanied by a loud noise. When I do, I become larger, but I weigh less. What am I?*

*LAST MONTH'S RIDDLE: Take a 5-letter word identifying a crop. Take away the first letter, and you have a form of energy. Take away the first 2 letters and you have a verb. Rearrange the 3 letters left and you have a drink. What is this 5-letter word?*

*ANSWER: Wheat.*

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