# THE CAPITAL MARKETS

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The Dow Jones Industrial Average (DJIA) finished October at 32,733 up +13.95% for the month, down -9.92% year-to-date. The S&P 500 closed October at 3,872, up +7.99% for the month, down -18.76% so far for the year. The NASDAQ Composite gained +3.90% in October, still down -29.77% for the year. Small-company stocks, as measured by the Russell 2000, ended October up +10.94% for the month, down -17.75% year-to-date. Energy (+24.09%) was the best-performing sector in October.

***"Investors have fixated on signals about the path of inflation as they try to gauge when the Federal Reserve will moderate its aggressive campaign of interest-rate increases. The central bank's swift lifting of rates as it seeks to tame price increases has helped drive the S&P 500 down 16% in 2022."***

(Wall Street Journal, *Stocks Jump as Producer Prices Rise Less Than Expected,* Karen Langley, Nov. 15, 2022)

## HAS INFLATION PEAKED? THE KEY QUESTION FOR MARKETS

The S&P 500 saw a healthy rally in October, and at the time of this writing, has continued a strong rebound off of September lows. A main catalyst for this has been a surprise slower-than-expected inflation report for October that drove the S&P 500 up +5% in a single day after it was released. Inflation, and especially what it means for the Federal Reserve's interest rate policy, has been the central market driver in 2022. Investors were bracing for potentially more disappointment on inflation when the October data came in at +7.7%, down from +8.2% in September and below forecasts for +7.9%. It was the slowest year-over-year inflation reading since January, leading some market participants to become increasingly optimistic that inflation is on its way down.

While one month's data is not enough to know for sure that inflation has peaked, many strategists have pointed to category data within the report as promising indications that a number of key components are trending the right way. Core CPI, for example, which removes the volatile energy and food categories, rose just 0.3% in October, well below the 0.6% increases in both August and September. Used cars, airline tickets, and health insurance all saw a welcome relief from inflation after having been key drivers in previous increases. Upward pressures still remain, however, especially in housing, where the pace of rental inflation has eased somewhat but remains at historically very high levels.

We wouldn't recommend that investors try to predict the path of inflation, or try to time the market with meaningful changes based on month-to-month data. Notably, this summer saw a similar period of optimism on inflation and subsequent market rally, only to see new highs on inflation a few months later. With economic uncertainty elevated, the potential for a recession, an ongoing war in Ukraine and many other factors, we expect volatility may be elevated in the near term, both up and down. Investors might consider any near-term cash needs and evaluate current cash positions during these times of market strength. It may be a more favorable time than the recent past to raise any near-term cash. We'd also encourage investors, as always, to maintain an appropriate context and zoom, consistent with your investment horizon, when navigating near-term economic developments. Our medium-term outlook for investors coming out of this bear market remains constructive. From all of us at NCTC, we are praying for a Happy Thanksgiving to you, your congregations, and your communities.

***" Investors are betting that a slowdown in inflation will allow the Federal Reserve to ease up on interest-rate increases. 'Clearly there are these hopes for a true peak in inflation and hawkishness from central banks,' said Thomas McGarrity, head of equities at RBC Wealth Management. But he cautioned that stocks are likely to remain volatile as investors face the rising risks of a global recession in 2023. 'We're not completely out of the woods yet,' he said."*** (Wall Street Journal, *Stocks Fall After Retail Sales, Corporate Earnings Reports,* Chelsey Dulaney, Nov. 16, 2022)

## FIXED INCOME UPDATE

The unusually negative environment for bonds and fixed income this year has exacerbated an already difficult environment for investors. As interest rates and yields rise, the price of existing bonds goes down, and rates have risen at a historically rapid pace in 2022. One consequence, however, of the otherwise painful rise in rates, is that investors are now seeing some of the more compelling fixed-rate yields than have been seen in the recent past. For example, at the time of this writing, many 2-year brokered CDs are yielding above 4.5%, and widely available Money Market funds are yielding over 3.5%. For the first time in a while, cash and short-term conservative investments are offering yields greater than zero, and greater than long-term expectations for inflation. Investors might consider taking advantage of these rates with any excess cash sitting in low-yielding accounts, consistent with your liquidity needs and time horizon. We're happy to help assess and analyze appropriate time horizons and terms for your specific needs.

# Market Metrics

| INDEX OR METRIC | CLOSE AS OF 09/30/2022 | CLOSE AS OF 10/31/2022 | CHANGE PREVIOUS MONTH END | 2022 YTD % CHANGE |
|---|---|---|---|---|
| Dow Jones Industrial Average | 28,725.51 | 32,732.95 | +4,007.44 | -9.92% |
| S&P 500 | 3,585.62 | 3,871.98 | +286.36 | -18.76% |
| NASDAQ Composite | 10,575.62 | 10,988.15 | +412.53 | -29.77% |
| RUSSELL 2000 | 1,707.99 | 1,846.86 | +138.87 | -17.75% |
| Fed Funds Rate | 3.00%-3.25% | 3.75%-4.00% | +0.75% | |
| 2-Year Treasury | 4.22% | 4.51% | +0.29% | |
| 10-Year Treasury | 3.83% | 4.10% | +0.27% | |
| Crude Oil $ per Barrel | $79.49 | $86.53 | +$7.04 | +15.05% |
| Gold $ per Troy oz. | $1,672.00 | $1,640.70 | -$31.30 | -10.28% |
| UK Point in U.S. $ | $1.1163US=1£ | $1.1514US=1£ | $ WEAKER | -15.00% |
| Euro in U.S. $ | $0.9797US=1€ | $0.9884US=1€ | $ WEAKER | -13.09% |
| Canada $ per U.S. $ | $1.37405C=$1.00US | $1.36405C=$1.00US | $ WEAKER | +7.99% |
| Japan Yen per U.S. $ | 144.745¥=$1.00US | 148.635¥=$1.00US | $ STRONGER | +29.07% |