



Weekly Market Commentary

THE WEEK IN REVIEW: Oct. 23 – 29

Q3 GDP turns positive

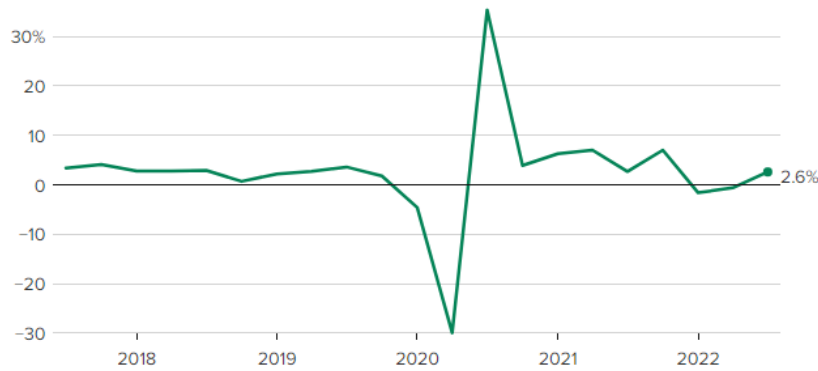
The negative growth in the first half of 2022 was reversed in the third quarter. The initial reading of [third-quarter gross domestic product \(GDP\) came in at +2.6%](#); added to the -2.2% GDP from the first six months, the economy is basically flat for 2022 at +0.4%.

At a minimum, the discussion of are-we-or-are-we-not in a recession should end now. The sad truth remains that we've had nearly zero growth this year, coupled with extremely high inflation exacerbated by high energy costs. At the same time, interest rates are moving steadily upward and adding to the misery. [It's not exactly a recipe for a robust and healthy economy](#), and we don't need to see two or three quarters of negative growth to confirm we are in a recession (or, at minimum, a stagflationary environment). In fact, despite the top-line number, the report offered plenty of evidence of a slowing economy, dragged down by high inflation, rising interest rates and slowing consumer spending.



Real gross domestic product

Compounded annual rate of change

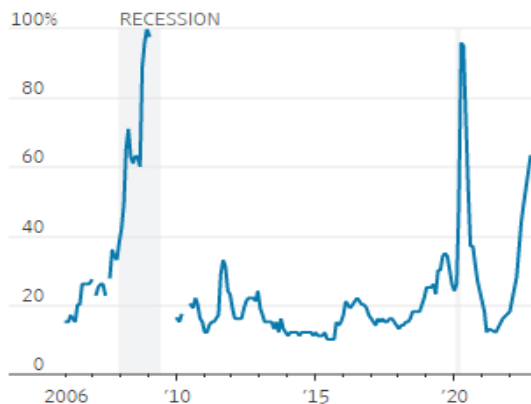


<https://www.cnbc.com/2022/10/27/us-gdp-accelerated-at-2point6percent-pace-in-q3-better-than-expected-as-growth-turns-positive.html>

Third-quarter growth was mostly a one-time smoke screen, with much of the increase coming from exports thanks to the strong dollar, such as sales from our Strategic Petroleum Reserve. Imports declined due to slowing consumer demand as spending slowed and businesses have been building inventory levels.

All this isn't sustainable, and we could be right back to minimal to negative growth by the end of the year. There are also signs that the Federal Reserve's interest rate increases are starting to act as a brake on the economy. [Residential investment was down 26.4%](#) last quarter, reflecting the contraction of the housing market. Besides the pandemic, that was the steepest fall since 2010. With [30-year fixed mortgage rates over 7%](#), it is hard to see how we grow when housing – which is [over 16% of our GDP](#) – has been hobbled.

Probability the U.S. is in a recession in next 12 months including today



Note: Gaps indicate question not asked or data unavailable.
Source: Wall Street Journal surveys of economists

<https://www.wsj.com/articles/economists-now-expect-a-recession-job-losses-by-next-year-11665859869>



Big tech earnings weren't stellar – but the market pushed forward

Google, Microsoft, Facebook, Amazon and Apple all reported earnings last week. Results were mixed – and mostly discouraging. Most of the weakness can be laid at the feet of higher interest rates, which make technology stocks unattractive in our sluggish economy. However, on Friday, Apple's earnings eclipsed Amazon's dour results and markets finished the week in a strong fashion.

Even though earnings weren't stellar, the market took it all in stride and sees the accumulation of mediocre-to-poor earnings and data as the reason for the Fed to slow its pace on future rate hikes. There is a lot riding on this week's Fed meeting; a change in tone could send markets sharply higher, but it could either way if the Fed doubles down on its hawkish language. Markets could stumble, although another 1.25% to 1.5% may already be priced in. What is not priced in is a Fed Funds rate above 5%, and any hint of higher rates could send markets running for cover.

So far, new lows have come every time we [notch another half-point on the 10-year U.S. Treasury](#). We saw the first low of 2022 when the 10-year hit 3.5% in June, then we hit the next low at the end of September when the 10-year reached 4%. October has been advertised as the traditional bear-market killer, and this month has been strong. Let's be optimistic that we continue this strong showing as we close out the year.

Coming this week

- Earnings will continue in a major way this week, with over 2,500 companies reporting. This should be the biggest week, and after that, fewer companies will be reporting. Once again, earnings have been mostly better than expected, but there have been some high-profile misses. Earnings will continue to have an outsized impact on the market this week.
- The Fed will meet on Tuesday and Wednesday this week. Current expectations are for a fourth consecutive hike of 75 basis points (.75%), bringing the fed funds rate to 3.75% to 4%. Although a surprise announcement on rates will move markets, the bigger concern will be what kind of guidance the Fed will provide for continuing rate hikes. Will we see a shift in their posture? Right now, the Fed is targeting the fed funds to be 4.25% to 4.5% by the end of the year, which would mean a raise of 50 basis points (.50%) in December. Expect markets to take off if we see a softening; if we hear a continued hawkish tone that challenges current expectations, markets could turn sour.
- If earnings and a Fed meeting weren't enough, we'll also get the latest Job Openings and Labor Turnover Survey (JOLTS) number on Tuesday, the ADP employment report on Wednesday and the Bureau of Labor Statistics (BLS) employment situation on Friday. Unemployment was at 3.5% last month, and we are [expected to stay in the 3.5% to 3.7% range](#).



Equities:	1 WK	YTD	1 YR	3 YRS	5 YRS
S&P 500	3.95%	-18.15%	-15.13%	8.68%	8.61%
NASDAQ	2.24%	-29.04%	-28.13%	10.07%	10.62%
DJIA	5.72%	-9.57%	-8.03%	6.65%	7.00%

Interest Rates:	10/28/2022	10/21/2022
UST 10 YR Government Bond Yield	4.01%	4.20%
Germany 10 YR	2.100%	2.341%
Japan 10 YR	0.245%	0.250%
30 YR Mortgage	7.10%	7.32%
Oil	\$88.50/ppb	\$83.99/ppb
Regular Gas	\$3.89/ppg	\$3.99/ppg

All data as of Oct. 28, 2022

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