Weekly **Market Commentary**

THE WEEK IN REVIEW: Nov. 6 – 12

Inflation takes a break

After the markets voted their displeasure with midterm election results by shedding nearly 650 points on the Dow and 80 points on the S&P 500 on Wednesday, folks were holding their breath for October's consumer price index (CPI) on Thursday. Unlike the election results, CPI didn't disappoint.

Expectations were for the year-over-year number to decline from 8.2% to 8.0%, with the range of forecasted outcomes from 7.8% to 8.1%. Everyone expected CPI to decline, but no one was expecting it to drop from 8.2% in September to 7.7% in October. That was all the markets needed to have their best day in well over two years. The S&P 500 climbed over 5% in one day and the Dow soared over 1,200 points as angst over election results evaporated and the old refrain of the Fed pausing and backing down took hold of markets.

So, has inflation peaked and has the S&P 500 hit its lowest low for the year? Right now, that appears to be the case. Be advised, however: If things change for the worse, we could go lower. But right now, we are at a logical place to bounce from.

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Declining inflation was mostly due to lower costs for fuel, but supplies are still tight. It won't take much to send prices upward, spiking inflation and snarling supply chains. This was why the elections needed to come in a bit stronger for Republicans; it would have been just the type of rebuke the administration needed to alter its policies. (More below.) Instead, we got a "meh" result, with nothing to cause either side to alter its path. For the moment, all is well in the markets, so enjoy this moment of euphoria.

Midterms come and go without a mandate from voters

The only "red wave" we saw last week was a massive selloff in the markets Wednesday, as the much-hyped Republican election sweep failed to materialize. First and foremost, there doesn't appear to be any sort of mandate from voters. The fact that the current administration was not sent a stinging rebuke via a bigger loss will likely result in very little soul-searching and even less deviation from current policies.

Our leadership will also likely have zero desire to address current energy challenges, which could continue to hamper economic growth. There won't be a serious attempt to rein in spending or reallocate funds to programs such as Social Security and Medicare. There will also be no meaningful reduction in regulations or the administrative state. What we will have for the next two years is political theater, with both parties fighting for time in front of the camera with the public.

With some races still to be decided, it's up in the air as to which party will gain or retain control. If the House goes to the Republicans, we could see gridlock for the next two years. Normally that wouldn't be a bad thing, but we have challenges that need to be addressed. Instead, the administration will likely view the results as a form of indifference on the part of the public with respect to current policies. They will argue that the people have spoken and that they aren't upset with where we are.

But despite the results of the election, people are not in a good mood. In fact, many don't feel the country is on the right track and have a pretty negative outlook. The issues we faced going into this election season won't go away after the election, and we could miss the opportunity to address them. Many economists and market watchers are still expecting a recession in 2023. Once the reality of a stagnant economy with stubbornly high inflation takes a deeper hold, we'll see how important it would have been to address the underlying problems that led us here. Instead, politicians will waste valuable time arguing what size of water bucket to use while our economic house burns down.

With the stock market, we will have some turbulence in the next six months as we digest the reality of higher rates and lower earnings. If legislative gridlock does happen, the benefits will be no new regulations or massive spending unless they come via executive order. Gridlock would enable markets to focus on making profits without worrying that the rules of the game or the dimensions of the playing field will change. Typically, this form of divided government is ideal for markets.

Coming this week

- It's hard to imagine any data coming close to last week's in importance. A nationwide election and a softening inflation reading were a lot for markets to take in. We will hopefully see further improvement in inflation with the producer price index (PPI), which measures the prices for people who make the stuff we buy. The latest PPI numbers will be released Tuesday.
- Federal Reserve speakers are scheduled all week. It will definitely be interesting to see what their reactions might be in response to October inflation readings.
- Third-quarter earnings continue, with nearly 1,100 companies reporting this week. As earnings wind down, it's important to note that they have been mostly better than expected with some high-profile misses. But between the Fed announcement, the election and the lower-than-expected inflation reading, earnings have been lost in the shuffle this month.
- Other data points of interest this week will be retail sales, business inventories and mortgage applications (Wednesday), housing starts and permits (Thursday) and existing home sales and leading indicators (Friday). These numbers bear watching, since mortgage rates are hovering near 7%, and we continue to see a swift decline in the housing market.

Equities:	1 WK	YTD	1 YR	3 YRS	5 YRS
S&P 500	5.90%	-16.22%	-14.12%	8.96%	9.11%
NASDAQ	8.10%	-27.62%	-27.90%	10.19%	10.90%
DJIA	4.15%	-7.13%	-6.05%	6.82%	7.58%

Interest Rates:	11/11/2022	11/4/2022
UST 10 YR Government Bond Yield	3.81%	4.16%
Germany 10 YR	2.158%	2.302%
Japan 10 YR	0.235%	0.247%
30 YR Mortgage	6.91%	7.32%
Oil	$88.91/ppb	$92.65/ppb
Regular Gas	$3.91/ppg	$3.86/ppg

All data as of Nov. 11, 2022

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