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Monthly Economic Recap

Sector Benchmark Performance:

Sector	Benchmark	Start Price	End Price	% Change	YTD % Change
S&P 500	**SPY**	386.21	407.68	**5.56%**	**-14.66%**
Dow Jones Industrial Average	**DJI**	32,732.95	34,589.77	**5.67%**	**-5.45%**
Nasdaq-100	**NDX**	11,405.57	12,030.06	**5.48%**	**-27.10%**
FI/FX	**BND**	$70.35	$72.76	**3.43%**	**-13.57%**
Commodities	**DBC**	$25.12	$25.49	**1.47%**	**22.20%**
Real Estate	**RWO**	$40.09	$42.86	**6.91%**	**-23.94%**
Emerging Markets	**VWO**	$35.45	$40.52	**14.30%**	**-18.65%**
Consumer Discretionary	**XLY**	$144.03	$146.17	**1.49%**	**-30.50%**
Consumer Staples	**KXI**	$56.80	$61.52	**8.31%**	**-5.16%**
Energy	**IXC**	$40.06	$41.39	**3.32%**	**46.51%**
Financials	**XLF**	$33.98	$36.31	**6.86%**	**-8.15%**
Healthcare	**IXJ**	$81.92	$86.69	**5.82%**	**-3.03%**
Industrials	**XLI**	$94.35	$101.72	**7.81%**	**-3.07%**
Materials	**XLB**	$74.08	$82.75	**11.70%**	**-7.47%**
Information Technology	**IXN**	$45.42	$49.10	**8.10%**	**-24.55%**
Communication Services	**IXP**	$51.93	$56.96	**9.69%**	**-31.21%**
Utilities	**XLU**	$66.78	$71.43	**6.96%**	**0.79%**

Key Market Highlights:

- Growth: 3Q22 real GDP showed the economy grew by a 2.6% annualized rate, following two consecutive quarters of negative GDP growth. Much of the gain came from a large upswing in trade, while beneath the surface, the economy is still losing momentum in both growth and inflation. Real consumer spending continued to soften, and construction spending was very weak with the climb in interest rates. However, investment spending is still holding up, and the GDP price deflator declined markedly to 4.1% from 9% last quarter. Moreover, with pent-up demand for autos and a still very tight labor market, it's clear the economy is not yet in recession. Source
- Jobs: The November Jobs report was strong at the surface with an above-consensus gain for payroll jobs and rise in average hourly earnings. However, both the details of the payroll report and a broader view of the labor market suggests that moderation is continuing after very strong gains earlier in 2022. In particular, this morning's report showed a second consecutive monthly decline in employment as measured by the household survey and a fall in temporary workers which often serves as a warning sign of weakness. Unemployment remained constant at 3.7%. Source
- Inflation: The October CPI report showed a picture of receding inflation pressures across various sectors of the economy, despite a bounce in energy prices. Headline CPI rose 0.4% m/m and Core CPI rose 0.3% m/m, translating to annual rates of 7.8% y/y and 6.3% y/y, respectively. Prices for core goods and services ex-shelter are showing promising deceleration, and as wages continue to cool and pent-up demand for services softens, we expect this trend will continue. October PCE also confirmed the cooling in inflation, with the headline and core measures rising a modest 0.3% m/m and 0.2% m/m, respectively. Source
- Rates: Persistent inflationary pressures have pushed the Fed to accelerate its rate hiking trajectory. At its November meeting, the FOMC announced another 0.75% increase in the federal funds rate to a range of 3.75%-4.00%. The committee's tone remained hawkish and inflation-vigilant, but investors took initial relief at new statement language acknowledging the significant amount of tightening the Fed has already delivered and the lags with which it will affect the economy and inflation. However, Chairman Jerome Powell's rhetoric in the subsequent press conference was increasingly hawkish, suggesting that the risk of Fed overtightening remains. Source

Key Trends:

- Our global economic outlook remains generally downbeat while central banks remain resolutely on their tightening paths. A below-trend growth and elevated recession risk over the coming year for the U.S. Source
- After this year's sell-off, fixed income now offers more protection against a market correction or economic downturn. a continuation of these fundamental trends—slower inflation, a peaking of policy rates, and weaker growth—should push yields lower. Source
- U.S. equity investors may use profits as a guide in a rising rate environment.
- Long-term growth prospects, a falling dollar, and wide valuation discounts support international equities.
- China loosens zero-COVID policy might boost economic growth. Source

Key Risks:

- **Slowing growth / Recession risks**
    - In the coming months, we expect slowing global growth to refocus investor fears from inflation to recession risks, which should ultimately drive a pickup in bond demand. Central to this view is that core inflation peaks in the coming months across major markets and then starts falling gradually back to central bank targets.
    - The outlook elsewhere appears similarly challenging. The euro area and UK are dealing with a severe energy price shock due to reduced flows of natural gas. With inflation pressures fairly broad-based, though, we think the European central bank and the Bank of England will continue tightening into that weakness.
    - The Fed could push the economy into recession if it overtightens policy in response to supply-driven inflation. Source
    - Markets may remain depressed and volatile until investors receive clarity on inflation and the Fed.
- **Colder winter in West, China reopening could send CPI climbing**
    - A quick and successful pivot to reopening in China could boost il and other commodities prices.
    - A colder winter in Europe and the US would generate upward pressure for electricity and utility prices.
- **Geopolitics / Energy crisis**
    - Heightened geopolitical tensions with Russia could result in continued energy shortages, low consumer confidence and dampened growth.
    - UK households face ‘very, very hard’ winter, warns National Grid chief. Source
- **Mounting debt burden for poorer countries**
    - World Bank warns of mounting debt burden for poorer countries Source
    - Higher interest rates and slump in currencies raise debt servicing costs by more than a third
    - A group of 69 low- and middle-income countries will make payments of $62bn on public debt this year, a 35 per cent increase from 2021
    - Payments for 2023 and 2024 will remain elevated due to high interest rates, a large number of bond maturities, and because countries have had to start making up for debt service that was deferred during the pandemic.
- **Other highlights around the world**
    - Europe
        - UK grocery price inflation fell in November but remained close to a 14-year high. Further rate rises likely. Source
        - ECB raises rates by 0.75 point to highest in more than a decade. ECB signaled a coming slowdown in the pace of its rate increases. Source
        - G-7 Sets Russian Oil Price Cap of $60 a Barrel. Source
        - Hungary blocks €18bn worth of EU aid for Ukraine: “We envision a different future for Europe. One built on strong member states, instead of huge piles of common debt.” Source
    - China
        - China Loosens Covid Restrictions as Public Anger Simmers Source
        - China’s Stock Rally Is Still Vulnerable: Extent of rise depends on housing-market revival and size of Covid ‘exit wave.’ Easing doesn’t mean an immediate end to zero-Covid, and China’s road to full reopening will be long and bumpy. Source
        - Chinese stocks and currency rally on reopening hopes Source
        - China risks 1mn Covid deaths in ‘winter wave’ Source
    - UK

    - UK construction growth slows as mortgage rates hit housing market Source
    - UK inflation expectations have eased, business survey finds Source
    - US and UK pledge to maintain high levels of LNG trade: New ‘energy partnership’ aims to boost amount of liquefied natural gas sent to UK while reducing reliance on Russia Source
    - UK at risk of food supply crisis Source
  - Japan
    - Japan’s Economy Contracts Slightly in the Third Quarter Source
    - Yen stages comeback against the dollar: Japan’s currency plunged to multi-decade lows in early autumn but investors eye a turning point Source