

PERSPECTIVES & OUTLOOK

November 2022



US Stocks Are Building a Bottom

Stocks are further along in the bottoming process than most people suggest. The S&P 500 began November 11% above its 2022 low. A re-test of that low remains possible, but "the bottom" becomes more durable each time it is re-tested (and holds).



Bond Yields Rocket Higher

Bond yields have spiked since early August thanks to stickier-than-expected inflation and four consecutive 0.75% rate hikes by the Fed. Suddenly, bonds offer attractive yields (4.4% on a 1-year US Treasury) and legitimate competition for equity dollars.



Fed Pause Could Happen in December

The Federal Reserve will likely implement a smaller rate hike in December, and it's not unreasonable to think they could pause hikes altogether heading into 2023. A pivot toward less hawkish monetary policy would be an obvious catalyst for stocks.



Earnings Growth Slows, but Still Positive

Corporate earnings for S&P 500 companies have grown 2-3% from a year ago and may still avoid a contraction, although the Energy sector (+134% YoY) skews that figure. The forward P/E ratio for the S&P 500 (16.3 as of Oct. 28) is well below its 5-yr average (18.5).



Inflation Has Likely Peaked

Even though headline CPI (8.2%) has remained elevated, there is growing evidence that inflation has peaked. Commodity prices, including oil/gas, are down significantly. Supply chain bottlenecks have eased. Home prices and new construction are declining.



Strong US Dollar Brings Challenges

The US Dollar has strengthened ~20% vs global currencies in the last 12 months. For US companies, a strong dollar cuts into foreign profits. For US investors, it hurts the performance of Int'l equities, although foreign stocks will benefit most when this trend reverses.



Midterm Elections are Good for Equities

Republicans are expected to pickup more Congressional seats this month, but stocks have performed well regardless of who wins. The S&P 500 has climbed higher in the six months following every midterm election since 1950, with an average gain of 15%.



How Far Do Stocks Fall in a Bear Market?

There have been 17 bear markets since World War II. The S&P 500 declined by 31% on average. In the nine bear markets also accompanied by a recession, the average decline was 36%. At its mid-October low, the S&P had fallen 28% from its peak.