Friday Forethought

For week ending December 9, 2022

Fed Throws a Bone – But Was It Just a Tease

Last week the Fed appeared to throw us a bone when Fed chair Jerome Powell implied that the Fed can start taking its foot off the gas pedal with regard to rate hikes. However he later tempered his stance with a warning that rate increases may continue on longer and higher than previously stated. The market showed investor disapproval, but after five straight days of losses, the stock market turned up yesterday on a positive negative - jobless claims climbed to 230,000; which could be a sign that the labor market may finally be cooling off. New unemployment filings have gradually risen from a 54-year low of 166,000 last spring, but they are still extremely low (cnbc.com).

Excerpts from Wells Fargo Institute

Most investors are embracing the symbolic close to the 2022 stock market. During this past year, both equity and bond benchmark indexes posted deeply negative returns in a double dose of disappointment that has been unmatched over the past 50 years; and was exacerbated by Covid shutdowns in China, global supply chain interruptions, the Russian/Ukraine conflict, inflation, etc. High inflation and the end of pandemic-related transfer payments reduced real disposable income in 2022, however, real spending growth remained more resilient as consumers' unleashed pent-up demand and shifted focus from goods spending to services spending.

2023may actually see this situation reverse as the drivers of inflation – oil prices, food prices, wage gains and productivity give way and the pace of inflation drops. We expect the U.S. recession in the first half of 2023, as well as a continued global economic slowdown, as last year's hawkish monetary policy and money growth slowdown works with a lag. That should drive down corporate earnings growth and create important inflection points for investors over the next 9 to 12 months.

For the full report, please see the attached 2023 Outlook from Wells Fargo Institute

Our Take

From a market perspective, we prefer to step deliberately through this kind of turbulence as the U.S. economy weathers the fastest pace of real rate tightening in modern history. Bear markets are ultimately a function of price and time. We believe both will run their course in 2023. While we expect 2023 to be a volatile and challenging year as we make this transition, paradoxically, we believe it may create some strong opportunities for investors to reposition for growth and back into a more pro-risk stance and the next economic recovery and bull market emerge.

QUIN OAKS
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Leading Trends

The S&P 500 Energy and S&P 500 Consumer Staples Sector are the leading sectors year-to-date: up 52.45% and down 1.16% respectively

Lagging Trends

S&P 500 Consumer Discretionary Sector and S&P 500 Communication Services Sector are the lagging sectors year-to-date: down 32.63% and down 38.63% respectively.

Weekly Markets

S&P 500	3,963.51	-2.77%
NASDAQ	11,082.00	-3.49%
DJIA[1]	33,781.48	-1.78%

[1]Dow Jones Industrial Average

10-YR US Treasury	3.487%	-2.38 bps
GOLD	1,801.20	-0.89%
OIL	71.79	-11.82%

Market close 12-1-2022 to market close 12-8-2022

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