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October 2022: Market Review

Developed economy equity markets rebounded in October as labor market strength and positive real economic growth outweighed concerns surrounding stubborn inflation and moderating corporate earnings. Headline U.S. CPI modestly cooled (+8.2% year-over-year) in September due to declines in gas prices. However, the core CPI reading, which excludes food and energy, accelerated to a forty year high of +6.6% year-over-year. Third quarter corporate earnings have been mixed so far although decidedly lackluster for technology companies, as declines in advertisement spending and a strong U.S. dollar had a negative impact on their profits in the third quarter. The advance reading of third quarter real GDP growth was +2.6% year-over-year annualized as exports of oil and natural gas to Europe along with an increase in consumer spending on services boosted economic growth. Additionally, the U.S. labor market continued to show resilience as the unemployment rate fell to 3.5% in September and the economy added 263,000 jobs during the month. The Dow Jones Industrial Average had its best one month return since 1976, gaining +14.1%. The S&P 500 Index also posted a solid return for the month (+8.1%). As mega-cap technology companies reported disappointing third quarter earnings, the tech-heavy NASDAQ Composite Index posted a modest gain of +3.9% in October.

In domestic equity markets, value stocks outpaced growth across all capitalization sizes. The Russell 1000 Value Index added +10.3% for the month while the Russell 1000 Growth Index rose +5.8%. The Russell Midcap Value Index appreciated +9.5% versus a return of +7.9% for the Russell Midcap Growth Index. Small cap stocks experienced a strong rebound in October as the Russell 2000 Value Index climbed +12.6% and the Russell 2000 Growth Index ended the month with a gain of +9.5%. WTI crude oil ended the month at $87 per barrel, a +10.1% increase in October as OPEC+ agreed to oil production cuts.

Developed international equities also appreciated in October, but trailed U.S. equities as heightened inflation and the higher likelihood of a recession outside the U.S. muted gains. The MSCI EAFE Index gained +5.4% during the month while the MSCI ACWI ex-US Index (which includes emerging markets) was up +3.0%. The MSCI Emerging Markets Index (-3.1%) was the sole broad-based equity index in negative territory for the month due to Chinese stocks plummeting -16.8% amid continuing COVID lockdowns and as the Biden administration placed export restrictions on U.S. semiconductor chips to Chinese companies. Weak relative results in Taiwan (-5.1%) and India (+2.5%) also contributed to the underperformance relative to developed market equities in October.

U.S. fixed income markets continued to decline as the Federal Reserve signaled their intention to increase the Fed Funds rate by another 75 basis points in early November. The magnitude of the 2- and 10-year U.S. Treasury yield curve inversion was broadly unchanged this month as yields rose in tandem in October. However, the 3-month/10-year U.S. Treasury yield curve inverted, ending the month at -12 basis points. The Bloomberg U.S. Aggregate Bond Index fell -1.3% in October while the Bloomberg U.S. Treasury 20+ Year Index declined -6.2%. However, bond investors were willing to accept more credit risk this month, resulting in a +2.6% gain for the Bloomberg U.S. Corporate High Yield Bond Index.

Global financial asset markets continued to experience volatility in October as investors are closely following corporate earnings, economic data, and comments from the Federal Reserve for clues on when the Fed will end this monetary tightening cycle. The Fed has hiked interest rates at the fastest pace since the early 1980s, and each successive increase in rates raises the probability of an ensuing recession. Lagging indicators, such as unemployment and GDP growth, signal a soft landing is possible; however, forward economic indicators, such as housing industry data, show that financial conditions are tightening rapidly. As the Fed meets in early November and again in December, investors will be keying on when and for how long the Fed will pause in this tightening cycle.

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Disclosures

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