Fourth Street Performance Partners
Independent Investment Consultants

November 2022: Market Review

Developed equity markets recorded consecutive monthly gains for the first time this year in November. Stocks surged after headline U.S. inflation cooled to +7.7% year-over-year, coming in below median economist estimates and provoking debate that the U.S. economy has passed peak inflation. During the month, the Federal Reserve increased the Fed Funds rate by 75 basis points for the fourth consecutive meeting, but investors reacted positively to comments made by members of the Federal Reserve indicating a moderation in the pace of rate increases going forward. Despite the sharp rise in prices this year, consumer spending remained resilient as early Black Friday sales estimates showed in-store sales increased +8.0% compared to last year. Additionally, the U.S. labor market remains strong, with 261,000 jobs added in October but showed signs of cooling as the unemployment rate rose to 3.7%. The Dow Jones Industrial Average rallied this month, gaining +6.0% while the S&P 500 Index increased +5.6%. The tech-heavy NASDAQ Composite Index rose +4.5% in November as technology companies lagged most other sectors, weighed down by disappointing earnings.

In domestic equity markets, value stocks outpaced growth across all capitalization sizes. The Russell 1000 Value Index added +6.3% for the month while the Russell 1000 Growth Index rose +4.6%. The Russell Midcap Value Index gained +6.3% versus an increase of +5.4% for the Russell Midcap Growth Index. The Russell 2000 Value Index appreciated +3.1% while the Russell 2000 Growth Index rose +1.6%. Energy stocks were among the weakest performers as WTI crude oil fell to $81 per barrel, an -8.0% decrease in November due to coronavirus restrictions in China that have kept demand in check.

Developed international equities had a strong month, surpassing U.S. equities as foreign stocks benefitted from a falling U.S. dollar. The MSCI EAFE Index rose +11.3% during the month while the MSCI ACWI ex-US Index (which includes emerging markets) appreciated +11.8%. The MSCI Emerging Markets Index (+14.8%) rose predominantly due to a sharp rally in Chinese stocks (+29.6%) as rumors of a Covid Zero exit plan fueled reopening bets made by investors even as a surge in infections and protests formed in the second half of the month. Additionally, strong results from other developing countries such as Korea (+15.0%), Poland (+18.7%), and Taiwan (+22.2%) contributed to the outperformance of emerging market equities relative to developed market equities.

For only the third month in 2022 U.S. fixed income markets gained as longer-term yields fell, potentially signaling investors' confidence that the Federal Reserve's actions will eventually tame the persistently high rate of inflation. The Bloomberg U.S. Aggregate Bond Index appreciated +3.7% while the Bloomberg U.S. Treasury 20+ Year Index rose +7.3%. The Bloomberg U.S. Corporate High Yield Bond Index (+2.2%) underperformed investment grade bonds in November. Yield curve inversions reached new extremes during the month. The negative spread between the 2-year and 10-year U.S. Treasury notes increased to -0.70%, the largest yield curve inversion in over 30 years.

Global financial markets experienced a second straight month of positive returns after facing painfully persistent declines in asset values this year. Volatility remains steadfast as investors continue to react strongly to any news surrounding the Federal Reserve's future course of action. This lifted markets in November after comments from Fed officials hinted that their record pace of interest rate hikes may be slowing. Hopes for a soft landing for the U.S. economy remain alive as resilient consumption data has thus far offset much of the negative economic effects of high inflation and tighter monetary policy. Recent data on inflation has been positive as both CPI and PCE, the Federal Reserve's preferred measure of inflation, were below market estimates. However, the slower pace of rate hikes may be accompanied by a higher peak rate than previously expected and rates may remain elevated for longer.

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