Monthly Newsletter
Nov 2022

ARCH GLOBAL ADVISORS

Monthly Market Recap

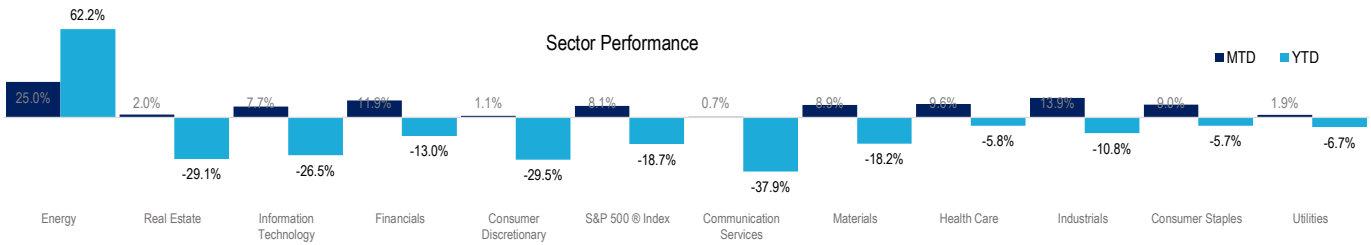
The Dow Jones posted its best month since 1976, with the index soaring 13.95% for October. The S&P and Nasdaq also posted strong gains of 8% and 3.9% respectively for the month. Corporate earnings, which are often looked at as the fuel that pushes equity prices higher, have come in better than expected, with 64% of companies beating expectations to date. While some companies reported mixed results, an earnings apocalypse that many had feared has not materialized. Dollar strength and margin compression has weighed somewhat on earnings growth, but Value stocks, which are trading far below historical multiples and continue to be an overweight sector of ours, performed especially well and rallied during the month. As of late, it is becoming clearer that a path towards a soft landing is possible.

This Wednesday, all eyes will be on Fed Chairman Powell, who is expected to raise interest rates again by 75bps and then possibly begin to signal a path for a step-down. October's CPI report showed headline inflation slightly lower to 8.2% and reading 0.4% for the month. We continue to believe that the Fed is already in the late innings of its rate hike cycle and will change course much sooner than many are predicting, including what the Fed has publicly signaled. As we pointed out last month, the Fed's track record of accurately modeling and forecasting has been woefully poor. We expect to be validated on that call shortly, as deflationary pressures (lower shipping costs, softer commodity prices, supply chains improving) are becoming more apparent with each month's CPI report, halting the necessity to take such a hawkish stance. Treasury yields rallied during October but have come off recent highs.

Housing/rents, which currently make up 40% of CPI, are finally beginning to show month-over-month declines. These components are often "sticky" and take time to be accurately picked up in the data and to feel the effects of interest rate increases. Many items leading "core CPI" are also now deflating. Homebuilder sentiment (NAHB) is also falling off a cliff, down for 10 straight months and half the level it was at 6 months ago. Mortgage demand has also stalled significantly, down 42% from the same period in 2021. We view this correction in housing to be just the beginning, but ultimately a positive, as home values need to return to equilibrium. With mortgage rates expected to be elevated for the next several quarters, this should continue to bring down future CPI readings and hopefully add supply to the market.

Economic activity continues to drive forward, with unemployment reaching a five-decade low and GDP for Q3 coming in at a robust 2.6%, better than the expectation of 2.3%. Despite this, dollar strength continues to weigh on the markets, with only a slight easing in dollar gains for the month, after the Bank of England and the Bank of Japan stepped in to provide support for their currencies. Year-to-date, the dollar is up 28.72% against the Yen, 13.31% higher than the Euro, and 15.42% more than the British Pound. We view this as a crowded trade today and are looking for the dollar to weaken in 2023.

Going forward, we believe there is room for equities to run higher in Q4 provided our thesis continues to hold up better than expected earnings and Powell not being overly hawkish. Seasonally, the fourth quarter is typically quite supportive for equity prices and historically, markets perform strongly in the 112 months after a midterm election. Since 1950, the S&P has averaged a 15% return in the 12 months post-election and has been positive 17 out of 17 times. While past performance isn't indicative of future results, we feel this perfect streak is worth pointing out.



	Index Return %	
Equities	**MTD**	**YTD**
S&P 500	8.1%	-17.7%
Russell 3000	8.2%	-18.4%
Nasdaq	3.9%	-29.3%
Dow Jones	14.1%	-8.4%
Fixed Income		
US Aggregate	-1.3%	-15.7%
US Corporate High Yield	2.6%	-12.5%

	Rate %	
Economic Metrics	**Sep-22**	
US Unemployment Rate	3.50%	
US Inflation Rate	8.20%	

	Levels	
Commodities	**Sep-22**	**Oct-22**
Oil (WTI)	79.91	86.12
Gold	1,671.80	1,648.10
DowJ. Commodity Index	1,004.17	1,029.71

	Rate %	
Interest Rates	**Sep-22**	**Oct-22**
10 Year Treasury Rate	3.83%	4.10%
30 Year Treasury Rate	3.79%	4.22%
30 Year Mortgage Rate	6.70%	7.08%
US Corp. AAA Effective Yield	4.76%	4.91%

All numbers reported are as of October 31, 2022.

Major Economic Events	Date
Employment Situation	4-Nov
Inflation Rate	10-Nov
FOMC Meeting	2-Nov

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Sources	
S&P 500 Performance	https://ycharts.com/indices/%5ESPXTR/level
Russell 3000 Performance	https://ycharts.com/indices/%5ERUATR/level
Nasdaq Performance	https://ycharts.com/indices/%5ENA100TR/level
Dow Jones Performance	https://ycharts.com/indices/%5EDJITR
US Aggregate Performance	https://ycharts.com/indices/%5EBBUSATR
US Corporate High Yield Perfor	https://ycharts.com/indices/%5EBBUSCOHYTR
US Unemployment Rate	https://ycharts.com/indicators/us_unemployment_rate
US Inflation Rate	https://ycharts.com/indicators/us_inflation_rate
10 Year Treasury Rate	https://ycharts.com/indicators/10_year_treasury_rate
30 Year Treasury Rate	https://ycharts.com/indicators/30_year_treasury_rate
30 Year Mortgage Rate	https://ycharts.com/indicators/30_year_mortgage_rate
US Corp. AAA Effective Yield	https://ycharts.com/indicators/us_coporate_aaa_effective_yield
European Markets Performanc	https://russellinvestments.com/middle-east/global-market-outlook#ColorBoxesRoot_5c2d1932-eb2f-4ad5-a377-5c496b847736
Sectors & Industries Performan	https://ycharts.com
Dow Jones Commodity Index	https://ycharts.com/indices/%5EDJC
Gold Price	https://ycharts.com/indicators/gold_price_in_us_dollar
Crude Oil Price	https://ycharts.com/indicators/wti_crude_oil_spot_price