PlanWiser Financial
201 E Las Animas St., Suite 101
Colorado Springs, CO 80903

719-822-0808
info@planwiser.com
www.planwiser.com

Monthly Market Commentary: October 2022

Another hot inflation report from September shows the Fed has a long way to go to get inflation under control. The Consumer Price Index rose 0.4% for the month and 8.2% over the prior year[1]. While the annual increase is slightly slower than the 8.3% in August, there weren't many silver linings in the report. Core inflation, which excludes food and energy, has grown 6.6% over the past year, the most since the early 1980s. The fact that inflation isn't slowing down makes it increasingly likely the Federal Reserve will hike 75 basis points in their next policy meeting in November.

Equity markets have had a surprisingly mixed reaction to the latest inflation data. Despite that, the Fed's comments have indicated it is likely to continue to aggressively attack inflation, and Fed Chair Powell acknowledged that "[t]he chances of a soft landing are likely to diminish." In other words, the more aggressive the Fed raises interest rates in response to inflation, the more likely the economy will be damaged.

On the positive side, the labor market continues to run tight with 263K jobs added to the economy in September, though the gains were down a bit from August's 315K[2]. The labor participation rate ticked down to 62.3%, from 62.4%, and the smaller labor force helped the unemployment rate drop to 3.5%. It's worth mentioning the report also noted some signs of weakness with layoffs in sectors that gained jobs during the pandemic.

Consumer sentiment rose to a six-month high in the University of Michigan's preliminary October report[3]. Despite the increase, sentiment remains at some of the lowest levels seen over the last 30 years. Not surprisingly, inflation continues to be a worry and consumers' short-term inflation expectations increased to 5.1%, which is the first time short-term expectations have increased since March.

The bottom line: The Fed is in a tough spot right now. Inflation remains their sole focus – even if that means some collateral damage in the economy and equity markets. We don't expect inflation to go away any time soon, so we expect equity and fixed income markets to remain volatile until the Fed signals an end to the rate hikes. All eyes are on the Fed's comments the first week of November to get a glimpse into how the Fed expects to end the year.

Sources:

1. Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm
2. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm
3. University of Michigan, http://www.sca.isr.umich.edu/