October 24, 2022 Update

Good morning. The market continued its "don't look now but things just took another big swing" last week with the S&P 500 up 4.74% for the week according to Factset. What were the reasons for the move? One of the biggest pieces of news came on Friday when Nick Timiraos of the Wall Street Journal, who's been called a "mouthpiece for the Fed", reported the possibility of the Fed backing off its .75% rate increases in its Dec meeting and going to .50%. While this would be welcome news, it doesn't change the so-called Terminal Rate for the Fed Funds which remain around 4.50%. If the Fed does slow down in December, it would just mean that smaller rate increases would continue into Q1 2023. Another weight hanging over the markets has been the strong dollar which took a breather last week thanks in-part to the Bank of Japan intervening to keep its currency from a further decline against the Yen. A stronger dollar makes it not only tougher for U.S. companies to make money on their sales abroad but also make it tough for emerging market economies that are "pegged" to the dollar since they pay their debt in U.S. currency.

So where does this all leave us now? The markets became massively oversold a couple of weeks ago when the disappointing inflation numbers were released via the CPI. The opening reaction low brought the S&P 500 to the 3500 area which, for now, appears to be a substantial line in sand. We rallied hard off that level due to several circumstances but mostly due to so-called oversold conditions and valuations becoming very attractive. In the short run the market does have some strong factors on its side such as:

1) **Earnings season** - has been good so far with 20% of the S&P 500 reporting and 72% of those have been positive earnings surprises and 70% have been positive revenue surprises. Unfortunately, the earnings growth rate has only been 1.5% which is much mower than inflation. (Source: Capital Wealth Planning) – *Near Term Positive*
2) **No major events for a couple of more weeks** – It's all about earnings this week and next. No Fed meeting until 11/2/22. *Near Term Positive*
3) **Election** – It appears as if we are heading for a divided government of some forum and markets like it when one party is not in complete control. *Near Term Positive*
4) **Santa Clause** – The last major event of 2022 is the December 14 Fed Meeting. After that begins the period where we typically see the Santa Clause Rally into the end of the year which can spill in to early 2023. Given how the dynamics are setting up, it is looking constructive so far. *Near Term Positive*.

Looking out beyond the coming weeks and months, the 3 Keys to a Bottom first identified by Tom Essaye ate the 7's Report remain:

1) **Chinese Covid Lockdowns Ease & Growth Resumes** – Not there yet. Over the weekend the Chinese government reiterated its "Zero Covid" policy and cities still remain on partial lockdown. *No Real Progress*
2) **The Fed** – Inflation needs to peak and start to materially decline. Inflation does seem to have peaked but is not yet materially declining. The silver lining is that the vast majority of the heavy lifting via raising the Fed Funds rate is behind us. *Some Progress*
3) **Geopolitical Tensions Decline** – Russia and The Ukraine remain locked in a stalemate with no real end in sight. This will continue to weigh on food and energy process, especially for Europe and the emerging markets. *No Real Progress*

Keep in mind, as these pieces fall into place, the market will begin to price that in and move ahead of the actual news and/or events so by the time everything has fallen in to place, the preverbal train will have already left the station.

My last piece is a Year-End Cheat Sheet by Tom Essaye of the 7's Report. I thought it was too good not to share.

Events that Could Cause a Market Turnaround			
Date	Event	Positive Outcome	Negative Outcome
10/14/22	BOE ends bond purchases	Purchases still possible.	Purchases not possible.
10/17-22 – 11/4/22	Q3 earnings season	2023 expected EPS > $230	2023 expected EPS < $230
11/2/2022	November FOMC meeting	Mention of dual risks.	No mention of dual risks.
11/3/2022	BOE Meeting	> 100 bps hike	< 100 bps hike
11/4/22	October Jobs Report	< 225k jobs added	> 225k jobs added
11/23/22	UK Fiscal Budget	Smaller spending/tax cuts	Larger spending/tax cuts
12/02/22	November Jobs Report	< 225k jobs added	> 225k jobs added
12/13/22	November CPI	CPI < 7.3%	CPI > 7.3%
12/14/22	December FOMC Meeting	50 bps hike.	75 bps hike.

I always welcome any feedback, opinions, or questions. Thank you for your time and attention to this update and I look forward to our next conversation.

Regards,

Tim

See my Video: [Thoughts on the Markets July 29 2022]

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BOE stands for Bank of England

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The **S&P 500 Index** focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

One basis point is equal to 1/100th of 1%, or 0.01%. In decimal form, one basis point appears as 0.0001 (0.01/100). Basis points (BPS) are used to show the change in the value or rate of a financial instrument, such as 1% change equals a change of 100 basis points and 0.01% change equals one basis point.

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