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Markets Mostly UP – Will it last?

Markets made a comeback in October, which continued into mid-November. Stockcharts.com. Markets made a huge comeback in October. The Dow capped off its best month since 1976 and all the major averages snapped a two-month losing streak. The Dow guided those gains, soaring 13.95% for the month. The 30-stock finished its best month since 1976 as investors bet on more traditional companies, to lead the next bull (market). CNBC 10/31/2022

The market continues to shift toward value stocks and smaller company stocks. In contrast, the larger cap companies continue to struggle: their declining forward earnings guidance and valuations have fallen but are still high relative to many other sectors. CNBC Overtime

Overall, Q3 corporate earnings are coming in better than feared with most beating estimates, although by a slimmer margin than usual. Factset

Index Chart since 9/30/2022. See the comparative table below, including YTD comparisons



As of 11/11/2022 Index	Since 9/30/2022	2022 YTD
S&P500	11.4%	-16.2%
DJ US Technology	8.8%	-30.0%
SP500 Large Value	14.7%	- 5.9%
DJ Sm-Cap Growth	11.1%	-22.1%
DJ Sm-CAP Value	16.8%	-10.2%

Outlook and Valuations

Investors cheered a lighter-than-expected October inflation reading of 0.4%, betting the Federal Reserve would slow its aggressive tightening campaign. The slightly lower CPI data – released Nov 10th - propelled stocks to their best weekly showing since June. Then on 11/15, the wholesale inflation index (PPI) was reported at only a 0.2% increase in October, compared to the consensus estimate of 0.4%.

UBS has forecasted a "sharp" US disinflation in 2023. It said weak growth alongside "mechanical" indicators, such as easing supply chain bottlenecks and rising goods inventories, would see prices fall next year. CNBC 11/14/2022

Fundstrat's Thomas Lee called the data a "game changer" that could support a rally through year-end. He thinks markets could rally as they did the last time an inflation shock ended. "Recall, in 1982, following the

final low in August 1982, the S&P 500 reached a new all-time high within four months, erasing [the] entire 27-month bear market," he wrote. "That was a vertical rally." Barrons 11/13/2022

Others are less convinced. "You would have thought something monumental happened that changed the backdrop, and I don't think that's the case," says Jonathan Golub, Credit Suisse's chief U.S. equity strategist. "Listen, I'm bullish, but I'm not seeing something that justifies a 6% move." Golub thinks the CPI's relevance this month was similar to prior months'—the numbers were just a couple of percentage points away from estimates and not enough to change the economy's trajectory or monetary policy. The outsize move for stocks reflected the market's "coiled spring" posture ahead of every inflation report this year. Golub notes that investors have been on edge for CPI releases, with stocks moving an average of 2.8% on the day of the past seven releases. Barrons 11/13/2022

Goldman Sachs's economic research team said that the core price consumption expenditures index, which the Fed closely watches, will drop from 5.1% to 3.5% by the middle of 2023 and may hit 2.9% by December. "We expect core inflation to fall significantly in 2023 for three key reasons," wrote Goldman." 1) a negative swing in the contribution from supply-constrained goods categories, following supply-chain improvements, 2) a peak in shelter categories reflecting a further rebound in vacancies and a waning boost from reopening and the return to cities, and 3) slower wage growth, reflecting the continuing rebalancing of the labor market." Marketwatch 11/14/2022

Trailing Price/Earnings (P/E) valuations SimplyWall Street 11/13/2022

The total US market had its last valuation peak in March 2021 with a P/E of 54.1. It is now down to 23.6 as of 11/13/2022, which is lower than its 3-year average PE of 33.3.

The Tech sector had its last valuation peak in December 2020 with a P/E of 44.9. It is now down to 31.4 as of 11/13/2022, which is lower than its 3-year average PE of 37.4.

Forward Price/Earnings (P/E) valuations Yardeni Research 11/11/2022

S&P500 Large Cap 17.3 vs. 2020 peak of about 24. S&P600 SmallCap 12.5 vs. 2020 peak of about 27.

Russell 2000 Growth 25.1 vs. 2020 peak of about 60, Russell 2000 Value 16.8 vs. 2020 peak of about 26.

S&P500 Technology 19.8 vs. 2020 peak of about 27. S&P500 Growth 19.7 vs. 2020 peak of about 30.

S&P500 Value 14.5 vs. 2020 peak of about 18.

Employment and Fed's Balancing Act of Inflation vs. Employment

US payrolls surged by 261,000 in October, better than expected, as hiring remains robust. Average hourly earnings rose 0.4% for the month and were up 4.7% from a year ago. However, in November, many large companies announced layoffs to offset lower revenue guidance for 4th quarter.

"There have been some signs of cooling," said Elise Gould, senior economist at the Economic Policy Institute. "We did see a substantial increase in jobs. But there's been a slowdown in the rate of increase. You would expect that as we get closer to full employment."

"While I believe it may soon be appropriate to slow the pace of rate increases so we can better assess how financial and economic conditions are evolving, I also believe a slower pace should not be taken to represent easier policy," Dallas Fed President Lorie Logan said on 11/10/2022. Other Fed officials have made similar comments in the last week. These included Fed Governor Waller, who said on Sunday, 11/13, that policymakers are nearing a point to contemplate raising rates at a slower pace, but overall rate hikes will continue to rise until inflation is effectively under control.

Market pricing shifted slightly toward a 0.5 percentage point Fed rate hike in December, which would be less aggressive than the pace that began in June with 0.75 percentage point moves at each meeting. Traders expect the Fed to enact another 0.5 percentage point increase in February. Those hikes are partly aimed at cooling a labor market where there are still nearly two jobs for every available unemployed worker. CNBC 11/4/2022

Retail Sales Top Forecasts. US retail sales rose 1.3% in October, exceeding expectations. Consumer spending growth last month was the highest since February. The October retail sales report shows the pent-up desire to shop that was caused by the pandemic remains strong, said Eugenio Aleman, chief economist for Raymond James. CNN Business 11/16/2022

While Many Struggle, The Rich Are Spending on Luxury Goods Like It's 1999. Despite high inflation, employment uncertainty, and looming recession, affluent consumers are still buying pricey Chanel handbags, Dior jackets, and Cartier watches. High-end consumers have yet to suffer the impact of faster inflation and lower macroeconomic growth, said Bernstein analyst Luca Solca. "The relief of getting out the pandemic alive has trumped any bad news, as consumers who can embrace a 'carpe diem' attitude," he said in a note to clients. "Nobody wants to be the richest person in the graveyard." Bloomberg 10/19/2022 & 11/11/2022

Import Prices Ease. Import prices fell 0.2% last month after decreasing 1.1% in September, the Labor Department said on Wednesday. In the 12 months through October, import prices increased 4.2%, the smallest rise since February 2021, after climbing 6.0% in September. Reuters 11/16/2022

Eurozone & UK Inflation Hits All-Time High & Recession Looms.

The Eurozone economy is buckling under the crushing weight of inflation that reached a new euro-era high of 10.7% in October. "Amid elevated uncertainty, high energy price pressures, erosion of households' purchasing power, and tighter financing conditions are expected to tip the EU, the euro area, and most member states into recession," the Commission said. The projections cast new light on the challenge facing Europe's governments and central bankers as they navigate an energy-driven cost-of-living shock for consumers at a time when nights are drawing in and temperatures are falling. Bloomberg 11/11/2022

UK inflation accelerated to a 41-year high of 11.1%, which was higher than expected due to rising energy and food prices. FT Times 11/16/2022

The Bank of England made its biggest interest rate hike in 30 years, saying it was needed to beat back stubbornly high inflation that's eroding living standards and is likely to trigger a prolonged recession. The central bank boosted its key rate by 0.75% to 3%, as Russia's invasion of Ukraine has driven up food and energy costs, pushing consumer price inflation to 41-year highs. The aggressive step matches the recent moves by the US Federal Reserve and the European Central Bank. Associated Press 11/3/2022

Another Record-Breaking Quarter for US Retail Annuity Sales as rates rise

10/31/2022 LIMRA's Fact Tank:

For the second consecutive quarter, annuity sales reached new heights. In the third quarter of 2022, total annuity sales were \$79.6 billion, a 27% jump from the prior year's results

Continued equity market declines and rising interest rates drove investors to continue seeking protection and purchase fixed-rate deferred annuities at record levels. Our forecast suggests that protection products will continue to propel growth in the annuity market for the next several years.

Total fixed-rate deferred annuity sales were \$29.8 billion in the third quarter, 159% higher than third-quarter 2021 sales. This is the best sales quarter for fixed-rate deferred annuities ever recorded. LIMRA is projecting fixed-rate deferred annuity sales to near \$100 billion by the end of 2022, which will exceed the previous annual high of \$80.8 billion, set all the way back in 2002.

Single premium immediate annuity (SPIA) sales were \$2.5 billion in the second quarter, a year-over-year increase of 58%. YTD, SPIA sales were \$6.0 billion, 28% higher than the same period last year. LIMRA forecasts income annuity sales to grow more than 10% in 2022 and steadily through 2026.

Dave notes: Annuity rates have been so low I haven't recommended any for a few years. However, with their current higher rates, they can make sense for the most conservative part of a portfolio.

Worst Year in History for Corporate Bonds - Bonds are on pace to have their worst year on record. To be sure, once interest rates stop rising—perhaps early next year—they may win back their place as a worthwhile investment for retired investors. But right now, that feels like wishful thinking. As the Federal Reserve has raised short-term interest rates in giant steps to fight inflation, bond prices have fallen down the cellar stairs. Bloomberg's broad US aggregate bond index is down 16% in 2022. HumbleDollar 11/8/2022

Market Recommendations

I continue to recommend from recent pdf reports on hutchisonria.com:

Reasons to Stay Invested in Volatile Times <https://dhutch.news/StayInvested2022>

Include Value and Growth in Portfolios: <https://dhutch.news/ValuevsGrowth2022>

A Strengthening Case for Small Cap Stocks: <https://dhutch.news/SmallStockCase>

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Investors cannot invest directly in indexes. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

Small-cap equities may be subject to a higher degree of market risk than large-cap funds or more established companies' securities. Furthermore, the illiquidity of the small-cap market may adversely affect the value of an investment so that, when redeemed, shares may be worth more or less than their original cost.

The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Dow Jones U.S. Technology Index measures the performance of US companies in the technology sector.

The S&P500 Value Index measures the performance of value stocks within the S&P500 index, taking into account book value, earnings, and sales-to-price valuations. It previously was a Citigroup Index.

The Dow Jones U.S. Small-Cap Growth measures the performance of US small-cap growth stocks and was previously a Wilshire Index

The Dow Jones U.S. Small-Cap Value measures the performance of US small-cap value stocks and was previously a Wilshire Index.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, representing approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 3000® Index measures the performance of the largest 3000 US companies representing approximately 98% of the investable US equity market.

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