

# MARKET VIEW WEEKLY

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## ECONOMIC REVIEW<sup>1</sup>

- The final reading of the University of Michigan Consumer Sentiment Index for November was revised higher to 56.8, above a preliminary reading, market expectations, and the previous month's mark.
  - Inflation expectations for the year ahead eased to 4.9% after October's reading of 5.1% ended a general downtrend in the measure since a peak in March and April.
    - 5-year inflation expectations ticked back up to 3.0% from 2.9% last month.
  - While overall consumer sentiment did surprise to the upside, the Surveys of Consumers Director noted several trends expected to continue negatively affecting consumer attitudes and weigh on the index.
    - "Along with the ongoing impact of inflation, consumer attitudes have been weighed down by rising borrowing costs, declining asset values, and weakening labor market expectations."<sup>2</sup>
- October durable goods orders rose across the board and turned in a strong reading of 1.0%, which doubled consensus expectations and handily beat the previous month's figure.
  - Commercial aircraft orders followed an exceptionally strong September by leading all categories, although orders still rose a healthy 0.5% after stripping out volatile transportation components.
- New home sales increased 7.5% despite forecasters calling for a decline in October.
  - While much of this can be attributed to a rebound from disruptions due to Hurricane Ian, there is evidence that the market is beginning to stabilize.

### How does Consumer Sentiment, Durable Goods Orders, and New Home Sales Impact You?

- Recent volatility in consumer sentiment likely reflects the whiplash seen across markets in response to a particularly hawkish Federal Reserve (Fed) press conference early this month and a softer-than-expected inflation reading on the Consumer Price Index (CPI) the following week.
  - Markets have been exaggeratedly responsive to economic data (generally backward-looking measures), which at times has felt as if the tail is wagging the dog.
  - This could continue until market participants have a clear indication that inflation is getting under control and the Fed can discontinue interest rate hikes sooner than currently anticipated.
    - From there valuations could solidify around a consensus market bottom and finally push higher.
- Until then, positive economic data like that of durable goods and new home sales may continue to be bad news for financial markets.



## A LOOK FORWARD<sup>1</sup>

- This week appears to be making up for the shortened Thanksgiving week with a plethora of economic data slated for release – final Q3 Gross Domestic Product (GDP), the Beige Book, Personal Consumption Expenditures (PCE), and nonfarm payrolls highlight an important week leading into the final month of 2022.

### How does broad economic data impact you?

- Given the market's current sensitivity to data, investors will be hoping for a gradual continuation of downtrends in inflation and home prices, as well as stability in consumer spending and ideally an upside surprise in GDP.



# MARKET UPDATE

Market Index Returns as of 11/25/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	1.56%	12.59%	-14.29%	-10.96%	10.42%	11.07%
NASDAQ Composite TR USD	0.73%	6.32%	-27.70%	-26.95%	9.95%	11.26%
DJ Industrial Average TR USD	1.80%	19.95%	-3.70%	0.46%	9.13%	10.21%
Russell Mid Cap TR USD	1.95%	14.15%	-13.55%	-11.80%	8.22%	8.62%
Russell 2000 TR USD	1.07%	12.50%	-15.74%	-15.64%	6.11%	5.60%
MSCI EAFE NR USD	2.15%	18.38%	-13.69%	-10.60%	2.15%	2.02%
MSCI EM NR USD	-0.09%	7.67%	-21.57%	-20.79%	-1.19%	-1.65%
Bloomberg US Agg Bond TR USD	1.05%	2.14%	-12.78%	-12.84%	-2.69%	0.10%
Bloomberg US Corporate High Yield TR USD	1.05%	4.81%	-10.65%	-8.77%	0.96%	2.52%
Bloomberg Global Aggregate TR USD	0.89%	4.28%	-16.47%	-16.60%	-4.41%	-1.68%



## OBSERVATIONS

- U.S. equities were positive across the board, although investors seem to be favoring value, defensives, and current cash-flow generators as the Dow outpaced the S&P 500 by 0.24% and the Nasdaq by more than 1%.
- Mid-cap stocks rebounded nicely from the previous week’s poor performance, leading all style boxes domestically.
- Developed international markets easily outperformed Emerging Markets – the only negative equity asset class, as well as beat out all domestic indices in returning 2.15% last week.
- Bonds were positive domestically, globally, and in the credit space; the Bloomberg Barclays Global Aggregate Bond index improved +0.89%.



## BY THE NUMBERS

- Farm Bureau Survey – Thanksgiving Dinner Cost up 20%: Spending time with family and friends at Thanksgiving remains important for many Americans and this year the cost of the meal is also top of mind. Farm Bureau’s 37th annual survey provides a snapshot of the average cost of this year’s classic Thanksgiving feast for 10, which is \$64.05 or less than \$6.50 per person. This is a \$10.74 or 20% increase from last year’s average of \$53.31. The centerpiece on most Thanksgiving tables – the turkey – costs more than last year, at \$28.96 for a 16-pound bird. That’s \$1.81 per pound, up 21% from last year, due to several factors beyond general inflation. Farm Bureau “volunteer shoppers” checked prices Oct. 18-31 – before most grocery store chains began featuring whole frozen turkeys at sharply lower prices.<sup>3</sup>
- U.S. and England Battle to 0-0 Draw in World Cup Showdown: AL KHOR, Qatar—American hopes stayed alive at the Qatar World Cup on Friday following the most un-American of results: a scoreless tie against England. On a night that saw the U.S. go for broke in search of a historic upset, the team left Al Bayt Stadium here still in control of its own destiny, but also carrying plenty of regrets for the chances it couldn’t put away. The Americans had the clearest scoring opportunities of the match yet couldn’t find a way to turn its control into goals against a suddenly toothless England. Iran’s earlier 2-0 victory over Wales means that when the U.S. squares off against Iran on Tuesday, both will have everything to play for. Whichever team comes out on top would all but guarantee its spot in the round of 16. A draw in this wide-open group would likely send Iran to the knockout round. “I hope we made a lot of people proud, but the job’s not even close to done,” U.S. playmaker Christian Pulisic said.<sup>4</sup>

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## Economic Definitions

**Durable Goods Orders:** This concept tracks the value of new orders received during the reference period. Orders are typically based on a legal agreement between two parties in which the producer will deliver goods or services to the purchaser at a future date.

**New Home Sales:** This concept tracks sales of newly constructed homes during the reference period. The Implicit US index is computed by taking the number of houses sold in the US and dividing it by the seasonally adjusted number of houses sold in the US.

**Federal Reserve (Fed):** The Federal Reserve System is the central banking system of the United States of America.

**CPI (headline and core):** Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

**GDP QoQ:** Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

**PCE (headline and core):** PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

**Nonfarm Payrolls:** This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

**University of Michigan Consumer Sentiment Index:** Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

**Beige Book:** A summary of commentary on current economic conditions by Federal Reserve District. Each Federal Reserve Bank gathers anecdotal information on current economic conditions in its District through reports from Bank and Branch directors and interviews with key business contacts, economists, market experts, and other sources.

## Index Definitions

**S&P 500:** The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Barclays Municipal Bond Index:** The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

### *Disclosures*

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data Obtained from Bloomberg as of 11/25/2022

<sup>2</sup> [Surveys of Consumers \(umich.edu\)](https://umich.edu)

<sup>3</sup> [Farm Bureau Survey Shows Thanksgiving Dinner Cost Up 20% \(fb.org\)](https://fb.org)

<sup>4</sup> [U.S. and England Battle to a 0-0 Draw in World Cup Showdown - WSJ](https://www.wsj.com)