



# October 2022 Recap

## Global Market Commentary – October Spectacular

### U.S. Markets Explode in October

October is historically one of the worst months for U.S. equity markets – but this October saw the best monthly returns in decades and the biggest October percentage gain since 1900 for the DJIA.

The record-setting October was in stark contrast to most of the other months this year, as investors struggled with monthly declines in January, February, April, May, June, August and September – as most of 2022's monthly returns have been red.

In keeping with U.S. markets, performance in developed markets outside the U.S. was very good in October too – as 35 of the 37 developed markets tracked by MSCI were positive. Performance in the emerging markets tracked by MSCI was mixed, however, as only 26 of those 46 indices advanced.

For the month of October:

- The DJIA leapt 14.0%;
- The S&P 500 gained 8.0%;
- NASDAQ advanced 3.9%; and
- The Russell 2000 jumped 8.2%.

The themes that drove market performance in October were many, and once again inflation fears and worries that the Fed won't be able to engineer a soft landing with its pace and magnitude of rate hikes were the two themes that Wall Street fixated on the most. And while inflation remained stubbornly high, as evidenced by the latest readings of the Consumer Price Index and the Producer Price Index. other more-positive themes emerged as well, namely that 3Q corporate earnings were better than feared;

housing seems to be cooling off; GDP returned to positive growth for the first time this year; and manufacturing was holding up well in most regions of the U.S.

Volatility, as measured by the VIX, generally declined in October, beginning the month just north of 30 and ending the month just above 25, although there was a brief spike to 34 early in the month.

West Texas Intermediate crude increased modestly in October, adding about \$3/barrel as it went from about \$83 to \$86/barrel.

### Market Performance Around the World

Investors looking outside the U.S. saw very good performance too, as 35 of the 37 developed markets tracked by MSCI advanced in October, with 33 gaining more than 5%.

Performance for emerging markets was mixed, however, as only 26 of the 46 recorded were positive.

Index Returns	October 2022
MSCI EAFE	+5.33%
MSCI EURO	+8.78%
MSCI FAR EAST	+1.09%
MSCI G7 INDEX	+7.47%
MSCI NORTH AMERICA	+7.76%
MSCI PACIFIC	+2.06%
MSCI PACIFIC EX-JAPAN	+0.46%
MSCI WORLD	+7.11%
MSCI WORLD EX-USA	+5.44%

Source: MSCI. Past performance cannot guarantee future results

## Sector Performance Was Very Good

For the month of October, sector performance was very good, as 9 of the 11 sectors were up for the month, with 7 up more than 5%.

Contrast that with the months of September and August, which saw all 11 and 9 out of 11 decline for those months, respectively.

And while ten months is not very helpful when trying to draw firm conclusions, it is interesting to see the difference a few months can make, as investors were reeling in January when 10 of the 11 sectors were red (with only Energy gaining that month); March saw 10 of the 11 positive; April and May saw a mixed bag; June was all negative; July was overwhelmingly positive; August was mostly negative, September was all negative and October was almost all positive. That's volatility.

In addition, for October the range in sector-returns was unusually wide, with the Energy sector gaining over 23% on the month and the Communication Services sector losing almost 2%.

Here are the sector returns for the month of October and September (two very short time-periods):

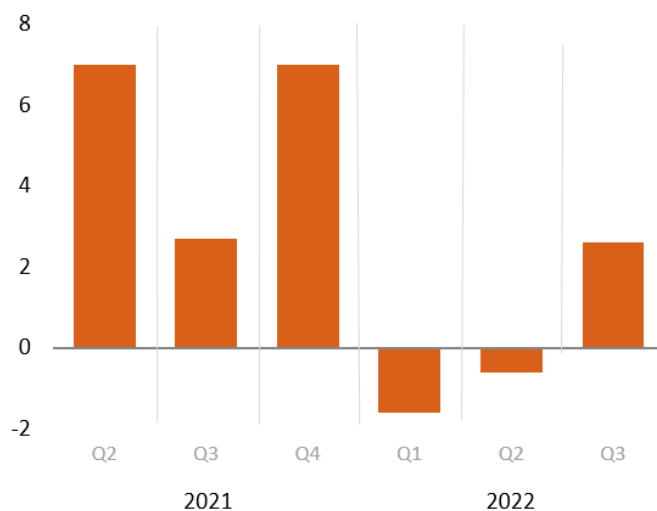
S&P 500 Sector	September 2022	October 2022
Information Technology	-13.25%	+5.66%
Energy	-11.40%	+23.71%
Health Care	-3.31%	+8.05%
Real Estate	-16.76%	+2.92%
Consumer Staples	-8.25%	+6.89%
Consumer Discretionary	-8.88%	-1.64%
Industrials	-11.88%	+12.37%
Financials	-8.81%	+10.57%
Materials	-12.54%	+8.58%
Communication Services	-12.07%	-1.75%
Utilities	-11.48%	+0.00%

Source: FMR

## GDP Rises in 3<sup>rd</sup> Quarter

A few days before the month ended, the Bureau of Economic Analysis reported that real gross domestic product increased at an annual rate of 2.6% in the third quarter of 2022. For perspective, In the second quarter, real GDP decreased 0.6%.

Real GDP: Percent change from preceding quarter



U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

“The increase in exports reflected increases in both goods and services. Within exports of goods, the leading contributors to the increase were industrial supplies and materials (notably petroleum and products as well as other nondurable goods), and nonautomotive capital goods. Within exports of services, the increase was led by travel and “other” business services (mainly financial services). Within consumer spending, an increase in services (led by health care and “other” services) was partly offset by a decrease in goods (led by motor vehicles and parts as well as food and beverages). Within nonresidential fixed investment, increases in equipment and intellectual property products were partly offset by a decrease in structures. The increase in federal government spending was led by defense spending. The increase in state and local government spending primarily reflected an increase in compensation of state and local government employees.

Within residential fixed investment, the leading contributors to the decrease were new single-family construction and brokers’ commissions. The decrease in private inventory investment primarily

reflected a decrease in retail trade (led by “other” retailers). Within imports, a decrease in imports of goods (notably consumer goods) was partly offset by an increase in imports of services (mainly travel).”

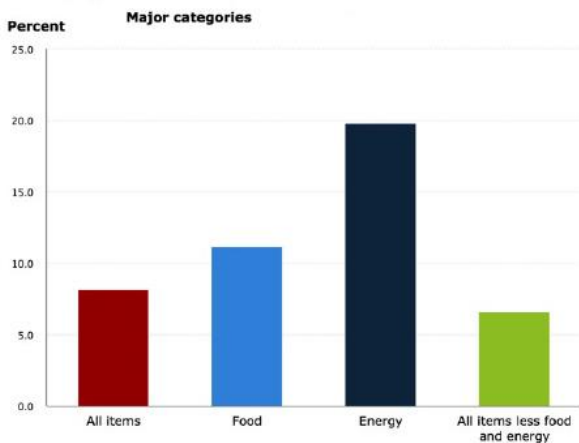
### Personal Income Increases

- Current-dollar personal income increased \$291.2 billion in the third quarter, compared with an increase of \$305.7 billion in the second quarter. The increase primarily reflected increases in compensation (led by private wages and salaries) and personal income receipts on assets.
- Disposable personal income increased \$268.3 billion, or 6.0%, in the third quarter, compared with an increase of \$253.3 billion, or 5.7%, in the second quarter. Real disposable personal income increased 1.7%, in contrast to a decrease of 1.5%.
- Personal saving was \$626.1 billion in the third quarter, compared with \$629.0 billion in the second quarter. The personal saving rate—personal saving as a percentage of disposable personal income—was 3.3% in the third quarter, compared with 3.4% in the second quarter.

### Inflation Still High

The Consumer Price Index for All Urban Consumers advanced 0.4% in September. But the 12-month inflation number came in at 8.2%.

12-month percentage change, Consumer Price Index, selected categories, September 2022, not seasonally adjusted

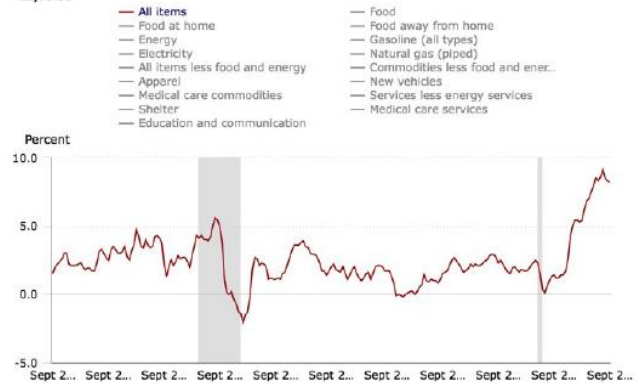


Source: U.S. Bureau of Labor Statistics.

The reasons for the large change were identified as follows:

- The food index is up 13.0% over the last year;
- The energy index increased 19.8% over the last year;
- Fuel oil is up 58.1% over the last year;
- New vehicles are up 9.4% over the last year; and
- Transportation services are up over 14.6% over the last year.

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted

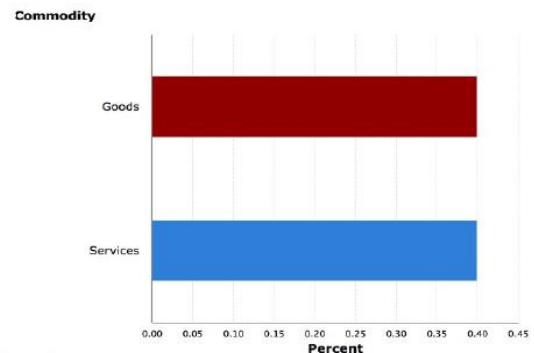


Note: Shaded area represents recession, as determined by the National Bureau of Economic Research. Source: U.S. Bureau of Labor Statistics.

### Producer Price Index Up

The Labor Department reported that the Producer Price Index for final demand increased 0.4% in September. Final demand prices declined 0.2% in August and 0.4% in July. On an unadjusted basis, the index for final demand advanced 8.5% for the 12 months ended in September.

PPI for final demand components, 1-month percent change, September 2022



Source: U.S. Bureau of Labor Statistics. All data are subject to revision 4 months after originally published.

- In September, two-thirds of the increase in the index for final demand can be traced to a 0.4-percent rise in prices for final demand services.
- The index for final demand goods also advanced 0.4%.
- Prices for final demand less foods, energy, and trade services advanced 0.4% in September, the largest rise since increasing 0.5% in May.
- For the 12 months ended in September, the index for final demand less foods, energy, and trade services moved up 5.6%.

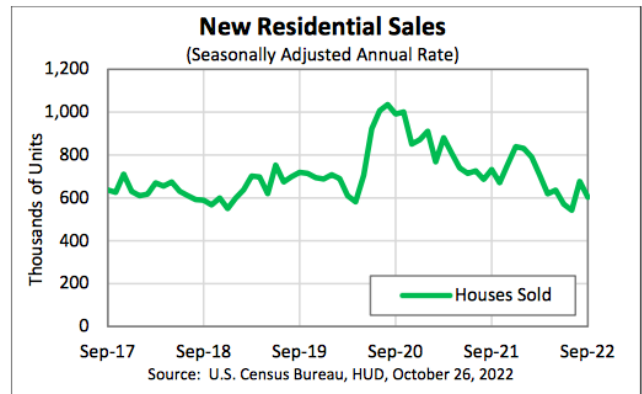
### Corporate Earnings Generally Decent

On the Friday before the month ended, with more than half of the S&P 500 companies reporting earnings for Q32022, research firm FactSet reported the following via press release:

- 71% of S&P 500 companies have reported a positive EPS surprise and 68% of S&P 500 companies have reported a positive revenue surprise.
- The blended earnings growth rate for the S&P 500 is 2.2%. If 2.2% is the actual growth rate for the quarter, it will mark the lowest earnings growth rate reported by the index since Q3 2020 (-5.7%).
- For Q4 2022, 28 S&P 500 companies have issued negative EPS guidance and 14 S&P 500 companies have issued positive EPS guidance.
- The forward 12-month P/E ratio for the S&P 500 is 16.3. This P/E ratio is below the 5-year average (18.5) and below the 10-year average (17.1).

### New Home Sales Down 18% in a Year

The U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced the following new residential sales statistics for September 2022:



- Sales of new single-family houses in September 2022 were at a seasonally adjusted annual rate of 603,000. This is 10.9% below the revised August rate and is 17.6% below the September 2021 estimate.
- The median sales price of new houses sold in September 2022 was \$470,600. The average sales price was \$517,700.
- The seasonally-adjusted estimate of new houses for sale at the end of September was 462,000. This represents a supply of 9.2 months at the current sales rate.

### Small Businesses Struggling

The National Federation of Independent Business released the following:

“The NFIB Small Business Optimism Index rose 0.3 points in September to 92.1, making the ninth consecutive month below the 48-year average of 98. Thirty percent of owners reported that inflation was their single most important problem in operating their business.

Inflation and worker shortages continue to be the hardest challenges facing small business owners. Even with these challenges, owners are still seeking opportunities to grow their business in the current period.

Key findings include:

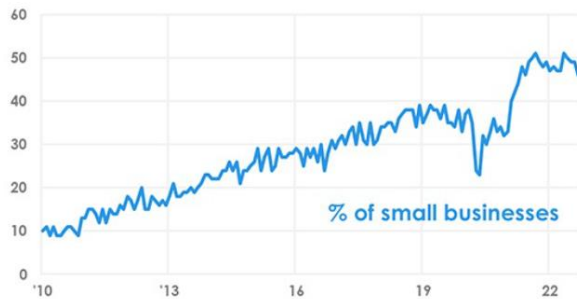
- Owners expecting better business conditions over the next six months decreased two points from September to a net negative 44%.

- Forty-six percent of owners reported job openings that were hard to fill, down three points from August and remaining historically high.
- The net percent of owners raising average selling prices decreased two points to a net 51% (seasonally adjusted).
- The net percent of owners who expect real sales to be higher increased nine points from August to a net negative 10%.
- The NFIB Uncertainty Index decreased two points to 72.

As reported in NFIB's monthly jobs report, owners' plans to fill open positions remain elevated, with a seasonally adjusted net 23% of planning to create new jobs in the next three months. Of those owners trying to hire, 89% reported few or no qualified applicants for the positions they were trying to fill."

### Can small businesses hire enough workers?

Percentage with at least 1 unfilled opening, Jan. '10 – Sep. '22



Nfbi.com/jobs

Sources: [census.gov](https://www.census.gov); [bea.gov](https://www.bea.gov); [bls.gov](https://www.bls.gov); [factset.com](https://www.factset.com); [nfib.com](https://www.nfib.com); [msci.com](https://www.msci.com); [fidelity.com](https://www.fidelity.com); [nasdaq.com](https://www.nasdaq.com); [wsj.com](https://www.wsj.com); [morningstar.com](https://www.morningstar.com); [bls.gov](https://www.bls.gov)