

Weekly Update – October 24, 2022

Market Returns Ending 10/7/2022			
Category	1 Week	MTD	YTD
<u>US</u>			
Large Cap	4.8%	4.7%	-20.3%
Mid Cap Growth	4.1%	2.7%	-29.6%
Mid Cap Value	3.3%	3.9%	-17.2%
Small Cap	3.6%	4.7%	-21.6%
<u>International</u>			
Developed	0.5%	1.1%	-25.9%
Emerging	0.2%	-1.2%	-27.8%
<u>Bonds</u>			
Aggregate	-1.1%	-2.5%	-16.7%
Treasuries	-1.1%	-2.3%	-15.0%
High Yield	0.3%	0.6%	-14.3%

US Equity Style Returns			
	1 Week		
	Value	Core	Growth
Large	3.9	4.7	5.4
Mid	3.3	3.6	4.1
Small	3.3	3.6	3.8
	YTD		
	Value	Core	Growth
Large	-13.3	-21.1	-28.1
Mid	-17.2	-21.6	-29.6
Small	-16.4	-21.6	-26.8

Source: Bloomberg

Key Events: Profit margins fall, as does the British Prime Minister

With 20% of the S&P 500 companies reporting, the blended earnings growth rate is 1.5%, the lowest since the pandemic. Profit margins have now fallen for five straight quarters.¹ On Friday, the market interpreted San Francisco Fed President Mary Daly’s comments to mean rates might rise slower.

International news kept the market participants on edge. After failing to implement her economic policies Liz Truss, the UK Prime Minister, resigned after 45 days - the shortest PM tenure in Great Britain’s history. Russia again pounded Ukraine with missiles and continued inflammatory rhetoric. Chinese President Xi Jinping secured a third term as the country’s leader.

Market Review: Ending on a positive note

As seen in the chart below from *The Wall Street Journal*, recession probabilities continue to increase. Despite that, markets both started and ended the week on a positive note. The S&P 500 rose 4.8% for the week as growth stocks led the way while international stocks had muted returns. Investment grade bonds lost ground as the ten-year treasury yield rose to 4.2% from 4.0% at the end of the prior week.

Outlook: Earnings season and more volatility

Stocks appear inexpensive based on the price relative to next year’s earnings; this week will provide some clarity as 30% of the S&P 500 report their earnings. We will be watching for signs of margin pressures from increased commodity prices and interest rates, as well as for signs of a consumer slowdown.

Additionally, the market is likely to look towards the mid-term elections for signs of direction. We caution that despite some short-term volatility, the US elections do not usually have as significant an impact on returns as many investors fear. The market generally likes a divided government, as policy stability is likelier in that scenario.



Probability the U.S. is in a recession in next 12 months including today

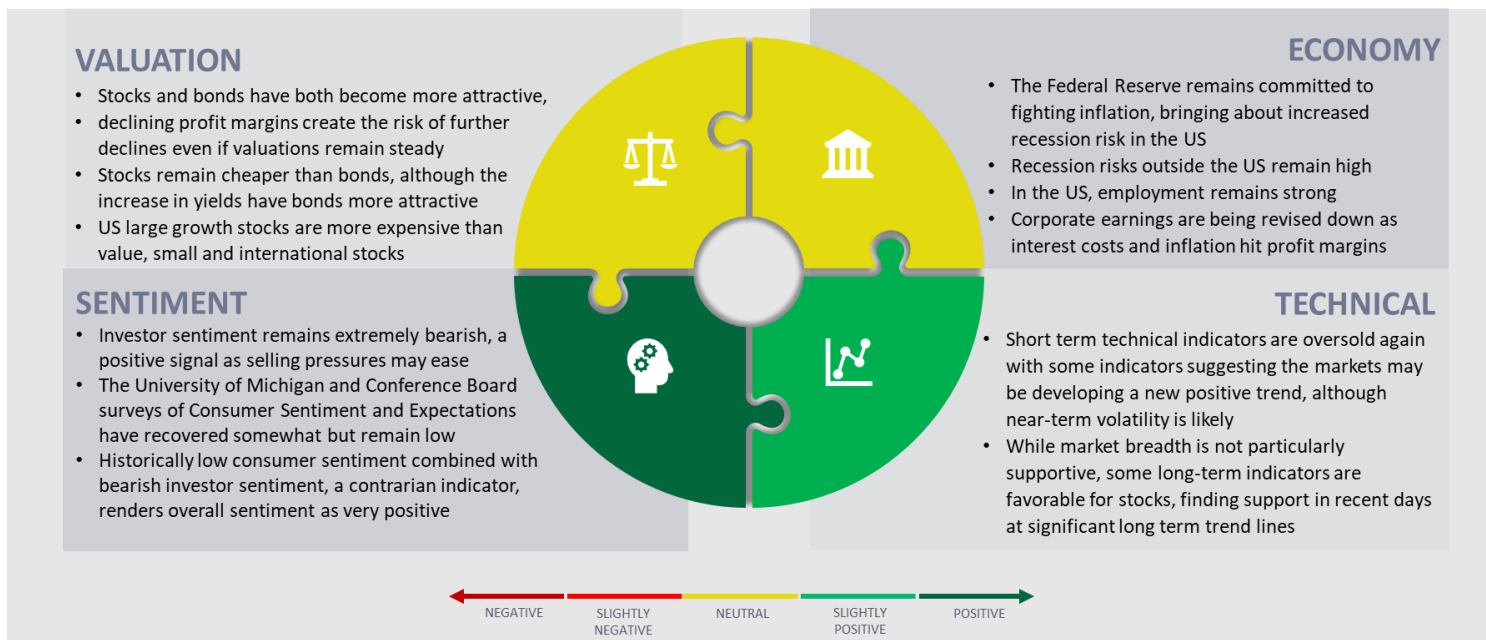


Note: Gaps indicate question not asked or data unavailable.

Source: Wall Street Journal surveys of economists

1) Source: Factset Earnings Insight

Navigator Outlook: October 2022



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