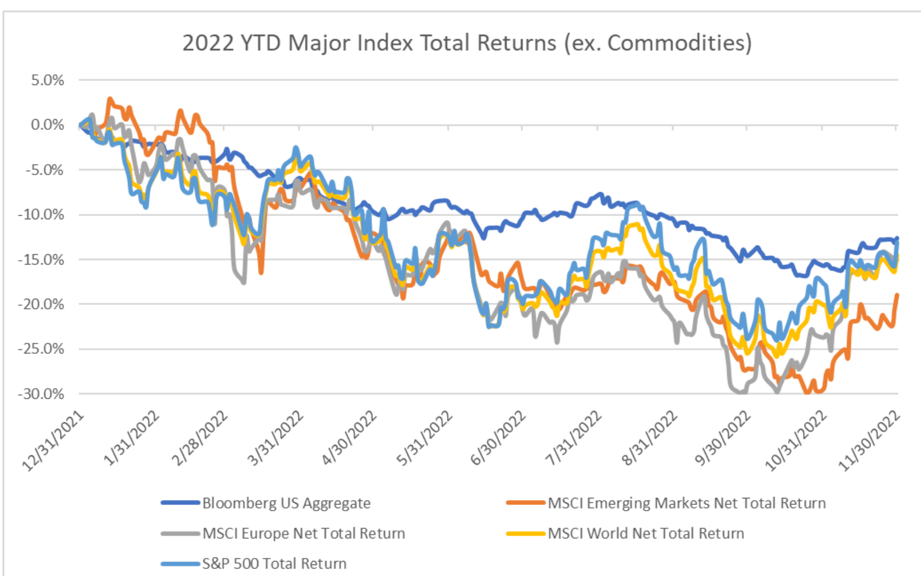
ENCORE INVESTMENT
ADVISORS

NOVEMBER 2022 MARKET REVIEW

Market Recap: In what has been a rare occurrence in recent times, equities and bonds both produced positive monthly returns in November, following a strong October performance in risk assets. Investors celebrated economic data releases that showed falling consumer and producer price inflation (finally!), which indicates we most likely experienced peak inflation earlier in the year. Inflation is the one data point that continues to drive markets in 2022 due to the impact on interest rates, central bank policy, and consumer sentiment. Central banks around the globe have tightened financial conditions massively in 2022, primarily by increasing interest rates, in an attempt to reduce snowballing inflation. The Fed embarked on the 6th hike of 2022, raising rates another 75 basis points and bringing the base rate to between 3.75% and 4%, a level we have not seen since prior to the Global Financial Crisis. Although there is clearly more work to be done to suppress inflation, we are now much closer to a Fed pause (or pivot) than earlier in the year, despite inflation being at the same level as it was in February. On the fiscal policy side, gridlock has returned in the US as the Republicans gained control of the House of Representatives, reducing the likelihood of any sort of major reform agreement. Gridlock is widely viewed as a positive for markets, as over-regulation can lead to subpar economic outcomes.

Portfolio values jumped in November as global equities advanced 7%, while global bonds advanced 4.7%. With one more month to go in 2022, equities and bonds have fallen -15% and -17%, respectively. Despite returning over 5% for the month, US equities lagged their International peers as European companies returned over 11% and emerging markets returned almost 15%. The sector-based gains were broad, as all sectors produced positive returns. Economically sensitive sectors, materials and industrials led the way, while high-flying growth companies lagged across technology, communications services, and consumer discretionary. Within commodities, crude oil prices have returned to 2021 levels, after spiking 60% over the summer months. The round-trip in oil prices is having a major impact on inflation, helping to offset higher food and housing expenses for many around the globe. As inflation expectations have fallen, so too have interest rates. The US yield curve has shifted lower and grown more inverted so far in the fourth quarter. The 3-month US treasury bill stood at 4.37% at month end, while the 10-year treasury note was almost 70 basis-points lower, at 3.68%; a staggering level of inversion.

How does this impact our perspective? The consensus base case is that the economy will experience some sort of recession in 2023. Many economic indicators point to an impending recession and most strategists believe 2023 will be a year of two halves – a difficult first half followed by a recovery in the second half. The question on our mind is - *what is currently priced into markets*? The odds of a "soft-ish" landing have increased given the October inflation data release, but we suspect earnings will undershoot current expectations, leaving equity market valuations appearing expensive. There is also a theory that so many calls for a recession can become self-fulfilling as hiring and consumption is curtailed, and sentiment plummets. However, as the Wall Street Journal noted in a recent article titled '*Economists Think They Can See Recession Coming – For a Change*', it would be quite rare for the majority of economists to accurately predict the timing and severity of a future recession. To prudently protect portfolios, we have recently added in a position in long dated treasuries for downside protection and will trim equities on substantial market rallies. On a side note, we are tracking the 2022 World Cup in Qatar closely. The US team performed quite well in the group stage but put in an underwhelming showing against the Netherlands. The winner looks to be coming from Europe or South America – our money is on Argentina and France advancing to the final!



Data Source: Y Charts

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