J | M
BROWN
FINANCIAL PARTNERS

Weekly Market Commentary
November 14th, 2022

Is Inflation Starting To Cool Off?

Last week's cooler-than-expected inflation data offered some relief to investors and the Fed, potentially indicating that October could be the start of a disinflationary trend that lasts through next year. The headline consumer price index (CPI) reading was up 7.7% from a year ago, the smallest annual increase since January, and down from September's 8.2% pace. More importantly for the Fed was that the core index, which excludes food and energy, slowed more than expected, advancing 0.3% from the prior month (vs. 0.6% in September) and 6.3% from last year (vs. 6.7% in September). Stripping out shelter, core CPI fell 0.1% last month, marking the first decline since May 2020.

In response to the CPI surprise, stocks surged, Treasury yields sank, and the dollar weakened, showcasing once again that inflation remains the No. 1 driver of market outcomes this year. We offer our take on the recent data, along with implications for Fed policy and investment strategy.

Downward consumer price pressures in the pipeline

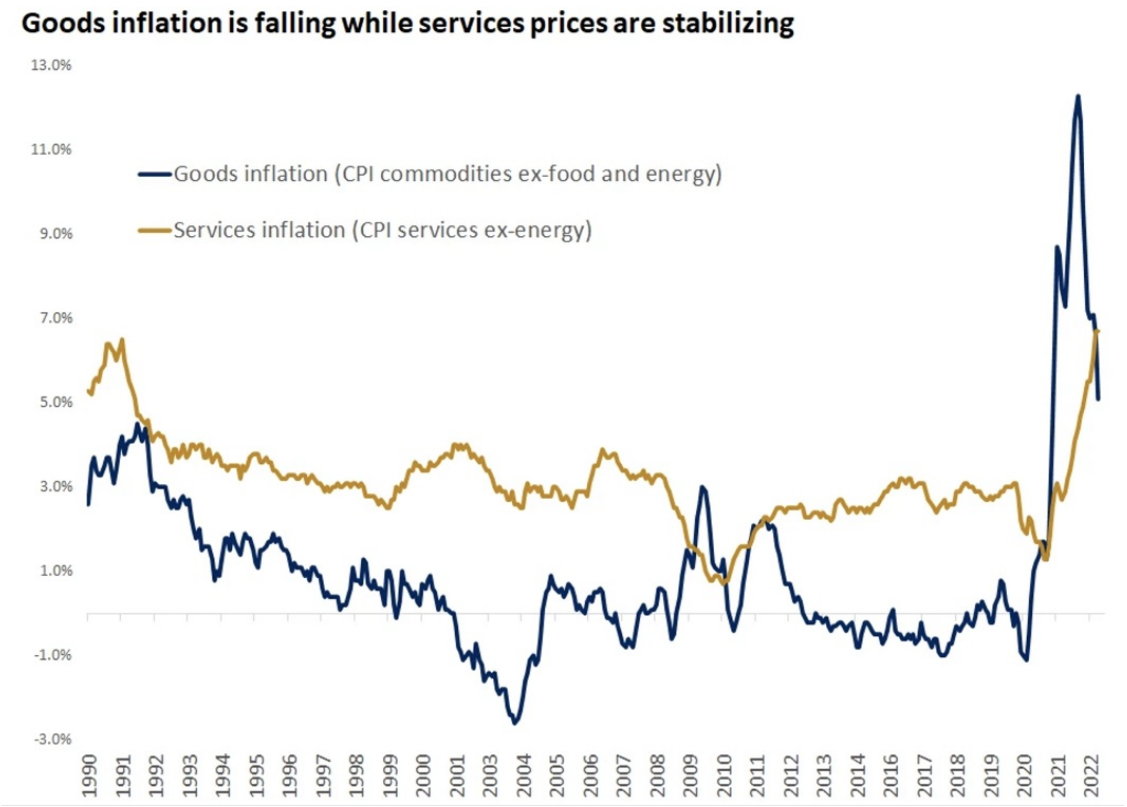
One month of cooler inflation doesn't make a trend, and markets learned that the hard way after the downside surprise in August more than reversed in the subsequent months. But at the same time, a month of better data is needed to start a trend, and several leading indicators of inflation point to further moderation ahead. Also, the breadth of the deceleration in prices across different categories this time suggests a more lasting change in the direction of inflation. Below are some of the major trends observed in October along with a forward-looking view of what could be in the pipeline.

- **Goods inflation–** Easing supply shortages, lower consumer demand, and excess retailer inventories are all contributing to a sharp slowdown in goods inflation, with prices declining 0.4% month-over-month. The biggest drag came from a drop in used car prices, consistent with the decline in auction prices observed since February. The Manheim index, which tends to lead the CPI used car price index by at least one month, is currently 15% off its high and points to further easing in November. Beyond autos, prices for household furnishings, apparel, and electronics all declined, helped by lower shipping costs and discounts from retailers that are looking to reduce stockpiles.

- **Services inflation–** Price increases for services tend to be persistent and slow-moving on the way down but are also starting to shift in the right direction. Housing inflation (shelter) which is the biggest services component and accounts for about a third of the overall CPI index, accelerated from last month, but that was driven by the volatile lodging category (hotel rates). More encouraging, prices for rents slowed for the first time in four months. Housing activity and home prices tend to lead the shelter CPI by several quarters. Because both sales and prices have rolled over in response to the spike in borrowing costs, we think that it is just a matter of time until they are reflected in the CPI. Elsewhere, October saw a notable decline in medical-care services prices and a drop in airfares. More broadly, as the labor-market tightness and wage growth cool, we expect a further slowdown in services inflation.

- **Food and energy inflation–** Food inflation remains high, but the food-at-home index posted its smallest monthly increase since December 2021. On the energy front, after three straight monthly declines, gasoline prices exerted some upward pressure

on headline inflation last month, though that was partially offset by a decrease in natural gas prices. High geopolitical uncertainty makes changes in commodity prices hard to predict. Yet a broad basket of commodities has been mostly range-bound over the past five months and is currently 15% off its June high. Last week China announced the relaxation of some COVID-19 restrictions, reducing the negative impact of its zero-COVID-19 policy on domestic economic activity. With China, a major commodity consumer, the gradual reopening of the economy is likely to support commodity prices in the coming months.



Source: Bloomberg.

The graph shows inflation for goods and services, with the former dropping and the latter starting to stabilize.

The bottom line is that there may be a sustained path of moderation in inflation next year, though it is doubtful it will be a straight line downward. Prices paid for inputs by manufacturing and services firms have historically been good leading indicators of inflation. An average of both measures is consistent with inflation falling below 4% sometime in 2023.

Source: FactSet. Edward Jones.

The graph shows that the prices paid PMI index has historically led to inflation by about six months. It is currently consistent with CPI falling below 4% sometime in 2023.

Cooler inflation gives the Fed room to downshift but not yet pivot

For the Fed, the deceleration in prices is a welcome development and provides some validation to slow the pace of rate hikes starting next month. After four consecutive 0.75% rate hikes, a slowdown to 0.5% in December seems the most probable move. But don't expect policymakers to abandon their higher-for-longer narrative just yet. Inflation remains too high for comfort at 7.7%, and officials will want to see several consecutive months of lower readings before considering a pause. The upcoming job reports and inflation releases over the coming months will continue to shift interest-rate expectations, but we think that the Fed will be able to conclude its tightening campaign sometime in the first half of next year once the policy rate reaches 4.75% - 5.00%. While a pause is now in sight, any hopes for a pivot to rate cuts are unlikely to be confirmed anytime soon.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	33,748	4.1%
S&P 500 Index	3,993	5.9%
NASDAQ	11,323	8.1%
MSCI EAFE	1,872	5.7%
10-yr Treasury Yield	3.82%	-.3%
Gold	$1,771	5.3%
Bonds	$96.51	2.3%

Earnings Reports For The Week

Rivian: Electric vehicle maker Rivian Automotive on Wednesday reaffirmed its 25,000-vehicle production target for 2022. It said it plans to spend less to do it as the company reported third-quarter revenue that fell short of Wall Street's estimate. Rivian said it now has "over 114,000" preorders for its R1-series trucks and SUVs.

Beyond Meat: Beyond Meat reported a wider-than-expected loss as demand for its meat substitutes tumbled. Beyond has tried to revive demand by offering restaurants and grocery customers discounts. In October, the company said it would cut 19% of its workforce or roughly 200 employees.

Roblox: Shares of Roblox closed down 21% Wednesday after the company reported a third-quarter loss but beat analyst estimates for bookings revenue. Roblox reported 58.8 million average daily active users, up 24% from a year earlier.

Disney: Disney fell short of expectations for profit and key revenue segments during the fiscal fourth quarter Tuesday. The company warned strong streaming growth for its Disney+ platform may taper going forward. Both its parks and media divisions underperformed estimates during the period.

Lucid: Lucid confirmed that it's still on track to make between 6,000 and 7,000 of its Air luxury sedans in 2022. The company announced plans to raise $1.5 billion, including over $900 million from Saudi Arabia's public wealth fund, already its largest investor. Lucid reported a net loss of $530 million for the third quarter, on $195.5 million in revenue.

From the team at J M Brown Financial Partners
www.perfectcalendar.com

P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to our distribution list, please reply to this email with their email address and we will ask for their permission to be added.

Investments and J M Brown Financial Partners are not affiliated companies 80 State Street, Albany, NY 12207 Tele (800) 801-6851 INSURED BY ANY STATE OR FEDERAL AGENCY

These views are those of Hyperchat Social, and not the presenting Representative or the Representative's Broker/Dealer and should not be construed as investment advice. This newsletter was prepared by Hyperchat Social. Hyperchat Social is not affiliated with the named firm or broker/dealer. Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. The Standard & Poor's 500 (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general. You cannot invest directly in this index. All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment.

You cannot invest directly in an index. The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index. The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market. The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998. The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal. The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets. Yahoo! Finance is the source for any reference to the performance of an index between two specific periods. The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Opinions expressed are subject to change without notice and are not intended as investment advice or to predict future performance. Economic forecasts set forth may not develop as predicted and there can be no guarantee that strategies promoted will be successful. Past performance does not guarantee future results. Investing involves risk, including loss of principal. The foregoing information has been obtained from sources considered to be reliable, but we do not guarantee it is accurate or complete. There is no guarantee a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. Asset allocation does not ensure a profit or protect against a loss. Consult your financial professional before making any investment decision. To unsubscribe from our Weekly Market Commentary hit the unsubscribe button.