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Weekly Market Commentary
November 7th, 2022

The Fed Says….Get Ready To Continue Our Hiking Trip!!

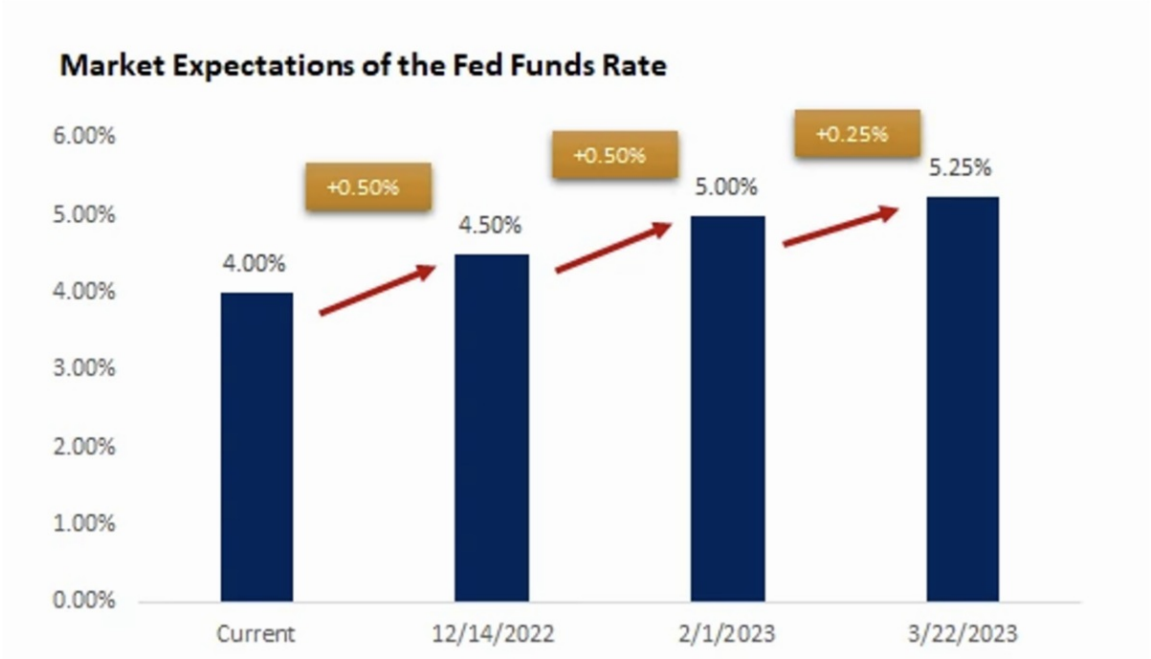
Last week the Federal Reserve (Fed) raised the fed funds rate by 75 basis points (0.75%) at its November FOMC meeting. This was the Fed's fourth consecutive 75-basis-point rate hike, which brings the fed funds rate from near zero to 4.0% in about eight months, an unprecedented pace of interest-rate hikes in the U.S. economy.

While the initial release of the Fed statement seemed more benign – the FOMC acknowledged the cumulative tightening it had done and noted that these rate increases operate with a lag to the real economy – the press conference that followed with Fed Chair Jerome Powell took on a notably hawkish tone. In our view, there were three key messages that Chair Powell and the FOMC delivered at the meeting last week:

1. The Fed may move at a more gradual pace of rate hikes, but this does not mean a pause is coming:
While Chair Powell did acknowledge that the pace of rate hikes may slow, perhaps as soon as the December meeting, he emphasized that any discussion around pausing this rate-hiking cycle was still "very premature." This reduces any likelihood of a pause in the December or perhaps even February meetings.

2. The peak fed funds rate is likely higher than what the FOMC outlined in its September meeting:
Chair Powell also noted that recent data indicates the ultimate interest rate will be higher than what was outlined in the September FOMC meeting. In September, the Fed laid out a set of economic projections that indicated the peak fed funds rate would be around 4.6% sometime in 2023. However, Powell seemed to endorse a higher terminal rate in last week's meeting, perhaps moving more in line with market expectations. In fact, market expectations for a peak fed funds rate of 5.0%-5.3% sometime in the first half of 2023 have remained generally steady, even after the Fed meeting.

Markets currently expect the fed funds rate to rise to about 5.25% by March 2023



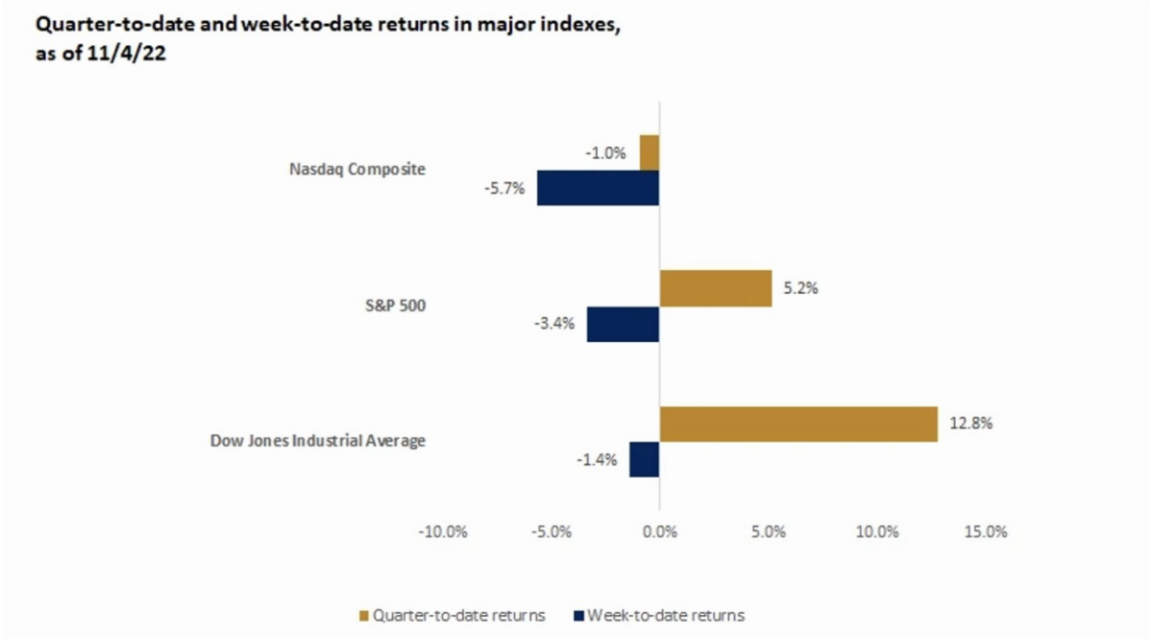
Source: CME watch tool.

This chart shows the market expectations for the Fed Funds rate next year, rising to 5.25% in 2023

3. The Fed sees more risk in pausing and easing prematurely than in overtightening:
The press conference also offered a glimpse into the Fed's risk calculations around this tightening cycle. Chair Powell noted that he sees a higher risk in prematurely pausing or easing rates, versus the risk of overtightening, which he believes the Fed could address with rate cuts as needed. This highlighted an interesting bias towards moving rates higher, at least until their preferred inflation readings move more meaningfully lower.

As a result of these hawkish messages around rate increases delivered by Fed Chair Jerome Powell, markets retreated broadly last week, giving back some of the gains from the October rebound. From an economic perspective, higher interest rates can put downward pressure on consumption and more directly impact the most interest-rate-sensitive parts of the economy, including housing and loan demand. And from a market perspective, higher rates and bond yields can weigh on the more speculative and higher-valuation parts of the market. We saw this play out in markets last week, as the technology-heavy Nasdaq fell over 5%, while the broader S&P 500 fell over 3%.

The Dow and S&P 500 have held on to healthy gains this quarter, despite last week's volatility, while the Nasdaq has given up its gains quarter-to-date.



Source: FactSet. Indexes displayed in the chart are unmanaged and cannot be invested in directly. Past performance does not guarantee future results.

This chart compares the week-to-date and quarter-to-date returns for select indexes. Weekly returns have been negative as markets price in higher rates, but quarterly returns have broadly been strong except for the NASDAQ composite.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	31,083	4.9%
S&P 500 Index	3,753	4.7%
NASDAQ	10,860	5.2%
MSCI EAFE	1,698	1.7%
10-yr Treasury Yield	4.23%	.2%
Gold	$1,657	.1%
Bonds	$93.82	-.9%

Earnings Reports For The Week

Carvana: Shares of Carvana fell in extended trading Thursday after the online used car retailer missed Wall Street's top- and bottom-line expectations for the third quarter. Nearly all aspects of Carvana's operations declined from a year earlier, including a 31% decrease in gross profit to $359 million. The used vehicle market a year ago was significantly elevated as consumers who couldn't find or afford to purchase a new vehicle opted for a used car or truck.

Doordash: DoorDash reported better-than-expected sales and total orders for the third quarter. The stock surged in extended trading Thursday.

PayPal: PayPal shares fell more than after-hours despite beat on earnings and revenue expectations for the third quarter. PayPal's Q4 revenue estimate of $7.38 billion was light of Wall Street's expectations. The company said it's working with Apple to enhance its offerings for PayPal and Venmo.

Starbucks: Starbucks beat Wall Street's expectations for its quarterly earnings and revenue. The coffee chain said U.S. consumers were spending more on their orders this quarter. Outside the U.S., Covid-19 restrictions in China continued to weigh on Starbucks' international performance.

Block: Block stock rose in extended trading after the payments company reported third-quarter earnings that beat Wall Street expectations for profit.

News and Notes:

When Should You Travel During The Holiday Season?

How can travelers better prepare for the upcoming holiday season?

- Choose your airline carefully. Do they fly the same flight and route one time a day or eight times a day?
- Know where your plane is coming from. Airlines like Southwest operate point-to-point networks which means they may hit multiple cities. This could have a ripple effect.
- Remember both the airports and the roads are going to be busier. Think about traveling during off-peak times and days and give yourself a buffer.

Are there any financial moves to be making with your holiday travel?

- Consider buying travel insurance. Make sure you read the fine print to see if they cover any delay or something specific like a mechanical failure.
- If you can use points that aren't part of a blackout period, many people have lots of stored-up frequent flyer points.
- Remember to budget extra for gas if you are driving.

Shifting gears, supply chain could affect holiday shopping…what gifts will NOT be affected by the supply chain?

- This could be the year of the "downloadable gift"- this could be a digital gift card or gift of a streaming service subscription for a year.
- Consider gifting an experience. Most venues (museums, spas, etc.) are open and this is something you can get locally in your city.
- Shop local: This could be the best holiday season to browse your local stores and make a purchase. Help your community.

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