ambwealth

Wealth Advisory Market Update

December 5, 2022

ambwealth

Market Update

Equities

Equity markets continued to move higher through November, recovering from their October lows. The S&P 500, through the end of November, was up 14.15% for the 4th quarter and down only 13% for the year. With a weakening dollar we have seen a resurgence in emerging market equities. Emerging markets are outpacing US domestic with returns of nearly 15% for the quarter. The main driver behind these moves comes from the Federal Reserve suggesting a slower pace of rate hikes moving forward.

We do feel however, that Friday's Non-Farm Payroll numbers could throw a wrench in this upward movement. The risk/reward profile for the indices is not favorable. We believe there is more downside risk than upside potential, and we are currently in a strong bear market rally. From a macro perspective, nothing has changed. Our view continues that there could be a recession on the horizon. We also expect earnings expectations to come down significantly over the coming quarters. As of now, 99% of companies have reported 3rd quarter results and major revisions to earnings have started to come in. Analysts have taken 4th quarter expectations down from $57.79 to $54.58 and we expect them to move lower. The new information gleaned from the recent earnings reports suggests we should continue to remain cautious in the equity markets and we will continue to stick to high quality, market – dominant players.

Monetary Policy and Economic Indicators

The Federal Reserve raised rates another 75 basis points in November. At his press conference, Federal Reserve Chairman Jerome Powell signaled they are looking for a slower pace moving forward. However, the terminal rate may be higher than original expectations. Chairman Powell reiterated that any notion of a pause was premature. This marks the fourth straight 75 basis point hike, pushing the Fed Funds rate up from 0 to 4.00% this year. Inflation numbers came in better than expected for October, and gave a glimmer of hope for a Fed pause or even a pivot. Again though, with the November Non-Farm payrolls higher than expected, and wage growth remaining stubbornly high in the face of the current rate hike cycle, we believe the latest jobs report is going to also place a foot on the brakes on any pivot coming from the Fed.

Inflation, which is slowing, remains sticky. Supply chain issues continue to be a major concern for now, although we think this problem could ease some by year end. The dollar, which has been strong all year has sold off the last few months which helped the markets rally globally. Additionally, the labor market in the U.S has remained resilient, but with the recent mass layoffs hitting the tech sector, we expect some weakness in the coming months. If the Fed remains hawkish and continues its aggressiveness, we would expect to see the dollar move higher once again, which in turn would put major pressure on global markets.

Geopolitical risks are still a major concern. China has floated the idea of easing its zero-COVID policy which would be a boost to overall growth and ease supply chain constraints. In Europe, the war in Ukraine is ongoing and doesn't seem to show signs of ending anytime soon. As winter sets in, Europe could be in for a rough few months as sanctions on Russian oil are set to take place. There continues to be global unrest and it too will continue for the foreseeable future. We expect the markets to remain vulnerable to some of these unstable situations.

Strategy

Equity markets remain volatile and this volatility is coming in the form of upside momentum. We remain overweight in value and quality, over growth. In times such as this, we want to own companies with dominant market share and pricing power. We still do not believe the lows are in, but with the seasonality of December, the lows for 2022 may be behind us.

We began adding duration to our fixed income portfolios as we mentioned in our last letter. So far, this has paid off as the 10-year bond yield has moved from 4.33% just a month ago to 3.5% as of today. We believe it is a great opportunity to start averaging new capital. We still seek high quality in this space.

As always, we continue to navigate this difficult environment to the very best of our ability. We at AMB thank you for your support and for allowing us to partner with you in reaching your financial goals.

Matthew J. Roach, CFA®
Chief Investment Strategist

Great News! You will now be able to access your AMB accounts through a new ambwealth website and mobile phone app (both iPhone and Android available in the AppStore and Google Play). Soon, you will be able to view account balances, review account performance, and review account information, all from your phone. ***Please be on the lookout for an email with your login*** *information in the coming weeks, and feel free to ask your financial advisor about the new ambwealth app.*