



Dear Friends and Clients,

October is now behind us and it has delivered on its track record as a historically favorable month for stocks, offering some respite for investors as major equity indices rose for the month. The downside pressure on equities had gotten a bit overdone after investor pessimism during September reached lows not witnessed in quite a few years. From a contrarian perspective, extreme pessimism can often be followed by a market bounce. Such a reaction can serve as a reminder not to react too quickly to near-term market developments. Gains in October helped deliver that message again, though they have only slightly offset this year's losses during what has been a very tough environment for capital markets.

While it may be easy to consider the October market reaction temporary, there are some potentially sustainable developments that may continue to provide a slight tailwind. First, investors may have begun to look beyond current inflation pressures and the Federal Reserve (Fed) monetary policy tightening cycle toward potentially better conditions in 2023. The market is always forward-looking, and asset prices tend to reflect what may happen months or quarters ahead. If investors continue to look ahead to better inflation readings (inflation has been coming down after peaking in June) and an eventual end to the Fed's rate hikes, asset prices may begin to more regularly reflect some budding optimism.

The Fed may have been slow to attack inflation, but its policies are working. Jobs and housing markets have been cooling, two inflation variables the Fed is seeking to influence. Some recent softening in economic data, coupled with signals from the bond market, may be indicating that Fed policymakers' concerted inflation fight may be closer to the end than the beginning. We will be paying close attention to potential subtle directional shifts in Fed policy expectations, which may be instrumental in shaping future market direction.

We are very aware that drawing elements of optimism from a stubbornly poor equity and bond market trend is no easy task. However, times like September when pessimism is at an extreme and emotions are running high, is often when investors need to steadfastly adhere to a clear-eyed view of market history and a good plan.

As we look ahead, the months of November and December have historically been constructive for asset prices. This year's calendar is complicated by political implications of the midterm elections, but markets historically have responded positively to the opportunity for course correction that midterm elections provide. We should also have slowing corporate earnings growth and greater economic uncertainty to contend with, some formidable seas to navigate. Still, as we survey what are better equity valuations, long-awaited income opportunities in the bond market, and a likely less-antagonistic Fed in 2023, there may be emerging reasons to believe that the next year may be more constructive than the last.

Please contact me if you have any questions.

Best regards,

Victor



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All data is provided as of November 1, 2022.

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