Summary

Economic data for the week included a gain in retail sales, while industrial production fell back slightly, and several housing metrics continued their multi-month declines. Regional manufacturing indexes were mixed, showing sharply divergent results. The Index of Leading Economic Indicators also continued a string of negative readings—signaling higher recession risk.

Global equity markets were mixed, with declines in the U.S., emerging markets and Japan, while greater Europe saw gains. Bonds fared decently with mixed interest rate changes across the yield curve. Commodities fell back in keeping with a sharp drop in the price of crude oil last week.

Economic Notes

(+/0) **Retail sales** for October rose by 1.3%, surpassing expectations of 1.0%, and included upward revisions for prior months. Removing the more volatile components, core/control sales were up 0.7%, about double the consensus estimate. It's been postulated that the latter was boosted a bit by Amazon Prime Day and gas rebates in CA. In looking at all sectors, gains were led by gas stations (4%), men's clothing (2%), and shoes (2%), while the largest declines were in fuel dealers (-5%) and department stores (-2%). Year-over-year, retail sales are up 8.3%, but this nominal figure must be trimmed back to account for the year's high inflation readings. On a 'real' basis, sales figures are far lower, but still positive. Retail sales are likely to become a larger focus of markets in coming weeks, as attention moves away from the mid-term elections towards the Holiday shopping season. The magnitude of how skewed retail sales are to the Holiday season is always surprising, but results in data needing to be dramatically seasonally-smoothed due to the extreme proportion of transaction activity in Nov. and Dec.

(-) **Industrial production** in October fell back by -0.1%, compared to the median forecast of a positive 0.1%. Manufacturing production rose a tenth, led by business equipment gain of nearly a percent and auto production up over 2%, while mining production fell -0.5%, and utilities production fell -1.5%—the latter tending to be weather-related. Over the past 12 months, industrial production in total is up 3%, led by an over-10% gain in auto manufacturing, and high single-digit results for business equipment and mining (which of course includes energy extraction). **Capacity utilization** declined by -0.2% to 79.9%. These continue to show positive, but tempered, results.

(+) The **Empire manufacturing index** rose by 13.6 points in November back into an expansionary 4.5 level; this was compared to expectations of a still-contractionary -6.0 reading. While shipments and employment improved, new orders fell back, just into contraction. Prices paid and received both increased, remaining high, but not as high as at peak levels. Expected business conditions six months out fell by over -4 points, further into contraction, reflecting recessionary expectations felt by a variety of businesses.

(-) The **Philadelphia Fed manufacturing index**, on the other hand, fell by -10.7 points to -19.4 for November—deeper into contraction and below the expected improvement to -6.0. Employment and shipments declined sharply, but stayed in expansion, while new orders fell back deeper into contraction. Prices paid ticked down a bit further, but continued to expand, and remained elevated compared to history, while delivery times saw improvement. Expectations for business conditions over the next six months ticked up by 8 points, but remained at a contractionary -7 level. Inflation expectations remained high, but did tick down a bit from the prior month.

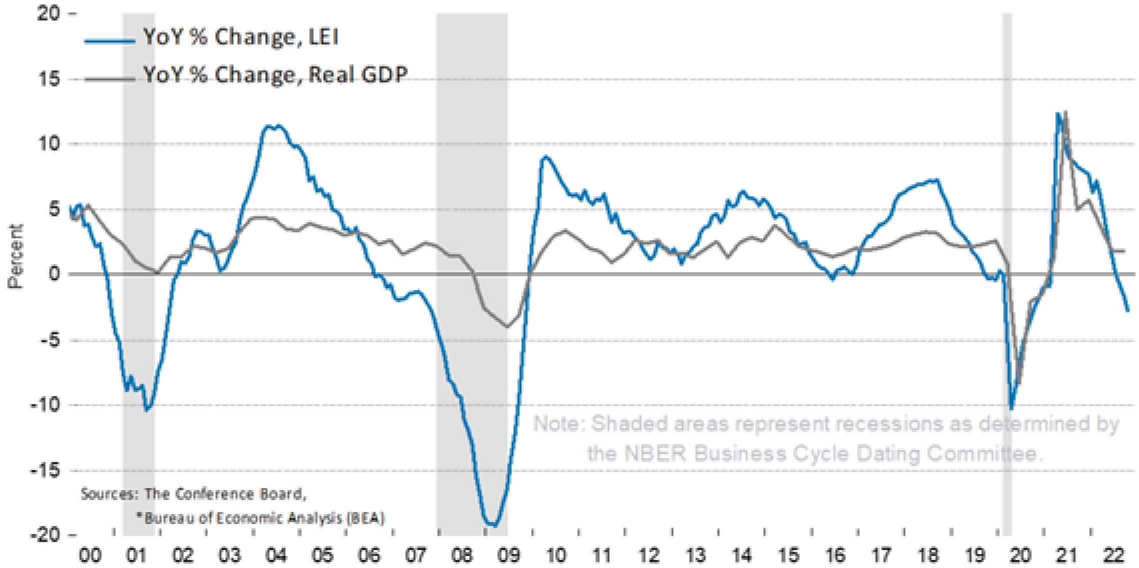
(+/0) The **producer price index** for October rose by 0.2% on a headline level, matching the prior month, but below the 0.4% expected by consensus. Ex-food and energy, core PPI was unchanged, with the differentials being energy prices nearly 3% higher and food up 0.5% on the month. These reflect a slowing pace of prices rises over the past two quarters, which has been welcome news, as it ultimately carries through to CPI. Individual sectors have diverged, with a drop in retail margins offset by areas such as rising medical care services costs. Year-over-year, final demand PPI is up 8.0% on a headline level, 6.7% for core, and 5.4% ex-foods, energy, and trade services. These are all a few tenths below last month's pace, with all numbers having seen a peak in March. Under the surface, this includes an increase of 11% for goods and 6% for services. While the goods number is expected to improve along with supply constraints easing, the services figure has proven more robust, and could take more time to normalize than first thought.

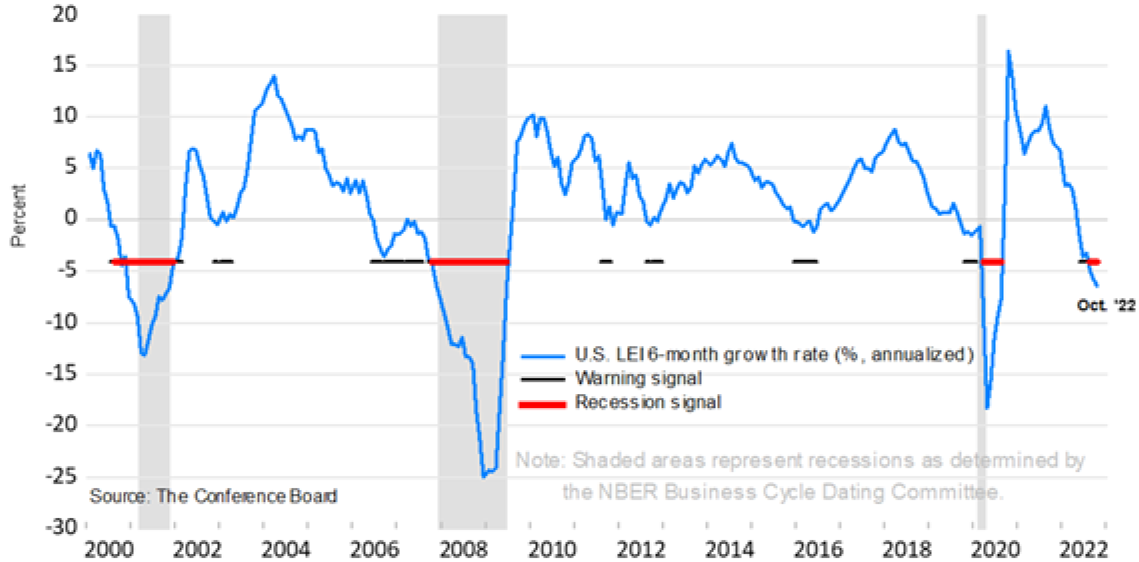
(-) **Existing home sales** for October fell by -5.9% to a seasonally-adjusted annualized rate of 4.43 mil. units, which surpassed expectations for a larger decline of -6.6%. This equated to a year-over-year drop of -28%, continuing a string of worsening results. Single-family sales were down over -6%, representing the bulk of the change, with weakness nationwide. The median home sales price is up 7% from a year ago at $379,100, and representing a record 128 straight months of year-over-year gains. Interestingly, inventory remains only slightly higher than levels of last year, which could help explain the resilience of pricing and lack of market distress. Moreover, considering how recent mortgage rates have risen, it appears that the vast majority of U.S. homeowners (who have 30-year fixed mortgages by nature anyway) are still paying rates under 5%. This has reduced the potential pain of higher rates on monthly bills, although those with adjustable-rate mortgages (as in the U.K. and Europe) are apt to feel much more pain. That said, U.S. mortgage rates last week fell back by almost a half-percent, which was the most extreme drop in over 40 years—triggered by both a lower 10-year treasury but also potentially from changes in how Freddie Mac calculates loan indexes.

(-) **Housing starts** fell by -4.2% in October to a seasonally-adjusted level of 1.425 mil. seasonally-adjusted annualized units, compared to expectations of a -2.0% decline. Overall, this also represents a drop over -9% over the past year. Single-family starts were down -6% (down -22% year-over-year), while the normally more volatile multi-family starts only fell by -1% (but up 18% year-over-year). Regionally, the South saw a minor gain, while the Northeast experienced a decline of -35%. **Building permits** fell by -2.4% in October, which was actually better than the -3.2% drop expected. Interestingly, multi-family has been on a tear approaching early 1970's levels, but debate continues about when the 'overbuilding' point (and subsequent bust, if any) could occur.

(-) The November **NAHB housing market index** fell by another -5 points to 33, below the 36 level expected. This marked the 11th straight month of declines, taking the index down to the lowest level in two years. All areas—current sales, future sales, and prospective buyer traffic—all fell back to similar degrees. Regionally, the West saw a small increase, but all others fell back, led by the Northeast. This index continues to reflect the often-dramatic changes in psychology of homebuilders, which have tended to be buoyant in good times, but more now reflect the more difficult realities of higher financing rates and impact on buyer affordability. Regardless, the U.S. remains in a housing deficit, so a lack of building exacerbates the ongoing supply problem.

(-) The Conference Board Index of **Leading Economic Indicators** fell by -0.8% in October, continuing a string of eight straight declines. This is now down -3.2% over the past six months, in contrast to the 0.5% gain over the six months prior to that. As was noted by index's sponsor, the LEI continues to suggest that the economy is possibly in or near a recession, with October data led downward by consumer sentiment, ISM new orders, building permits, as well as stock prices. Based on historical relationships, their estimate for total 2022 real GDP growth is 1.8%, with a prediction of a recession starting around year-end, and slated to last through mid-2023.





(0) **Initial jobless claims** for the Nov. 12 ending week fell by -4k to 222k, relative to expectations calling for a minor bump up to 228k. **Continuing claims** for the Nov. 5 week rose by 13k to 1.507 mil., just below the 1.510 mil. expected. Claims results were mixed by state, with no extreme results. These results remain tempered, with little sign of labor stress.

Market Notes

Period ending 11/18/2022	**1 Week (%)**	**YTD (%)**
DJIA	0.11	-5.41
S&P 500	-0.61	-15.60
NASDAQ	-1.51	-28.23
Russell 2000	-1.70	-16.63
MSCI-EAFE	0.26	-15.51
MSCI-EM	0.79	-21.50
Bloomberg U.S. Aggregate	0.48	-13.69

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2021	0.06	0.73	1.26	1.52	1.90
11/11/2022	4.28	4.34	3.95	3.82	4.03
11/18/2022	4.34	4.51	3.99	3.82	3.92

U.S. stocks were pulled down last week by holiday sales warnings from Target, which led to fears of weakening retail trends for the holiday season, although other retail firms offered mixed to better results. A layoff announcement from Amazon was also taken negatively in that space as a potential pre-recessionary warning. In the overall down week, defensive sectors consumer staples, health care, and utilities led the week with gains of over a percent, while consumer discretionary stocks led the downturn, with a decline of nearly -3% (reflecting the retail concerns). Materials, energy, and financials also fared negatively, as did real estate.

Foreign stocks were mixed, with the U.K. and Europe positive, especially in local currency terms, followed by declines in emerging markets and Japan. U.K. results were buoyed by economic stabilization measures, such as higher taxes and reduced spending (usually negatives for markets, except at times of perceived crisis). Japanese market sentiment soured with a 3.6% inflation reading, which compares favorably to recent U.S. and European readings, but represents a 40-year high and raised worries of central bank action. In emerging markets, a 3% gain in China was offset by larger drops in Brazil and South Korea.

U.S. bonds fared decently, with a further inverting of the yield curve, due to rising yields on the short end and falling yields on the 30-year end. That said, the 2y-10y part of the curve inverted to the widest level in the last four decades. While some prognosticators prefer the 3m-10y and others the 2y-10y, an inverted yield curve in general has been one of the most reliable predictors of recession over the modern era. However, it operates with a lag of anywhere from several quarters to over a year. Investment-grade corporates fared best last week, with gains of nearly a percent, while high yield and bank loans fell back. Foreign bonds were mixed, despite the usual headwind of a stronger U.S. dollar for the week.

Commodities fell back generally last week, pulled down by energy and industrial metals. Natural gas prices rose 7% on reports of a restart of a major U.S. LNG facility in the spring (later than expected). On the other hand, the price of crude oil fell back by nearly -10% to $80/barrel, as rig counts grew, expanding supply. Additionally, European petroleum supplies are also near peak levels, despite fears of potential rationing this winter not that long ago.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.