Summary

On a Thanksgiving-shortened week, economic reports included surprisingly positive data from durable goods orders and new home sales, and improvement in consumer confidence, while jobless claims rose a bit.

Global developed market equities gained last week, while emerging markets fell back, due to declines in China. Bonds fared positively, as long-term interest rates declined. Commodities fell back, mostly due to a drop in crude oil prices.

Economic Notes

(+) **Durable goods orders** for October rose by 1.0%, over double the 0.4% median expectation, and bringing the year-over-year increase to 11%. Removing transportation trimmed the monthly rise to 0.5% (with that sector driven higher by commercial aircraft during the month), while core capital goods orders rose 0.7%. However, strength was seen in a variety of industries. Core capital goods shipments gained 1.3%, well above the 0.2% expected. While it appears unlikely that this same pace of goods production will continue over the coming quarters, there has not been substantial erosion yet.

(+) **New home sales** in October rose by 7.5% to a seasonally-adjusted annualized level of 632k, in contrast a -11% drop the prior month, and current expectations of a -5.5% decline. This brought the year-over-year sales number to a -6% decline. Regionally, the South saw the largest gain, while the Midwest experienced a sharp decline. The months' supply data point ticked down by -0.5 to 8.9, as sales outpaced new supply coming on board. The median new home price is now up 15% from last year at $493,000. This was an unusual report, considering the rising mortgage financing rates during the period, but the strength in the Southern region may be related to delayed sales from the prior month's hurricane. The next several months should prove interesting as markets seek a balance between home affordability and inventory, the latter of which remains quite low with key urban centers in a severe housing deficit.

(+) The final November **Univ. of Michigan index of consumer sentiment** rose 2.1 points to 56.8, exceeding the 55.5 expected. Assessments of current conditions rose by a point, while expectations for the future gained 3 points. Inflation expectations for the coming year fell back by -0.2% to 4.9%, while those for the next 5-10 years were consistent at 3.0%.

(-) **Initial jobless claims** for the Nov. 19 ending week rose by 17k to 240k, above the 225k expected. **Continuing claims** for the Nov. 12 week rose by 48k to 1.551 mil., above the 1.520 mil. expected. Higher initial claims were focused on 5k or so each in CA, GA, and IL, with continuing claims also ticking higher at a faster pace than expected. However, overall levels are still low.

(0) The November **FOMC meeting minutes** added more color to recent assumptions, by noting that a 'substantial majority' of participants noted a slower pace of hiking would 'likely soon be appropriate'. Financial markets took this positively. Discussion also echoed the formal post-meeting statement that referenced hikes up until now operate with a lag, so the cumulative effect is important to consider, as opposed to simply reacting to current inflation levels on a separate meeting-to-meeting basis. While inflation remains the committee's top worry, they're making concessions as their guesses about whether the U.S. goes into recession or not over the next year were split about 50/50 (historically, that being a key concern for financial stability). Also, that the newer estimates for the terminal rate are higher than they 'previously expected,' with a heightened risk of possible overtightening.

Market Notes

Period ending 11/25/2022	1 Week (%)	YTD (%)
DJIA	1.80	-3.70
S&P 500	1.56	-14.29
NASDAQ	0.73	-27.70
Russell 2000	1.07	-15.74
MSCI-EAFE	2.15	-13.69
MSCI-EM	-0.09	-21.57
Bloomberg U.S. Aggregate	1.05	-12.78

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
11/18/2022	4.34	4.51	3.99	3.82	3.92
11/25/2022	4.41	4.42	3.85	3.68	3.74

U.S. stocks gained in the lower-volume holiday-shortened week. By sector, conditions were mixed, with utilities and materials each rising by 3%, while energy brought up the rear showing a minimal increase. Real estate gained 2%, around the middle of the pack.

Sentiment was negatively affected by additional announcements from tech companies about layoffs, although it appeared to be focused only on certain elements of the sector. The growing potential of a railroad strike could negatively near term supply distribution for energy, as well as industrial and consumer durable goods, while the length of any strike being key for the amount of damage. However, these appeared to be offset by better earnings results in the technology and consumer discretionary sectors, as well as signs the Fed might be decelerating the pace of rate hikes ahead.

Developed foreign stocks gained with hopes that European central banks might also slow the pace of rate hikes, like the U.S. Fed, in addition to a weaker dollar. Interestingly, a variety of business activity indicators continued to decline and show the European economy may be close to, or already be in, recession. (This is another good time for a reminder of how market valuation and forward-looking prospects remain very different from current economic readings.) Emerging markets fell back on the week, led by a -3% decline in China, as new Covid restrictions were applied in some areas to combat rising cases, including a key technology manufacturing region. Turkey was a world exception last week, with a gain of nearly 10% (bringing year-to-date returns to over 70% in USD terms), led by local retail investors, and due to an unconventional policy of lowering interest rates to combat high inflation by focusing on raising economic growth.

U.S. bonds saw positive returns as treasury yields on the intermediate- to long-term end fell back by 10-15 bp. Short-term yields, however, rose in anticipation of Fed movements into 2023. Credit fared slightly better than governments, due to spreads tightening slightly. Foreign bonds fared slightly better due to the U.S. dollar falling back a percent last week.

Commodities fell back overall last week, despite the positive influence of the weaker dollar, led by lower prices for energy and industrial metals (aluminum). The price of crude oil fell by nearly -5% to just over $76/barrel, as uncertainty over China's rising lockdowns, OPEC production, and European gas caps weighed on speculative activity. On the other hand, natural gas futures prices rose over 9% due to perceived weather-related demand, uncertain price cap levels, and expected export activity to Europe (which has been buying up U.S. LNG to replace supply from Russia).

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, ValueLine, 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.