



**The Weekly Market Update – 10/24/22: Short-Term Equity Rally Could Continue**

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	3,752.75	4.74%	4.66%	-21.26%	-12.88%	4,796.56	27.8%
Dow Jones Industrial Average	31,082.56	4.89%	8.21%	-14.46%	-8.16%	36,799.65	18.4%
NASDAQ Composite	10,859.72	5.22%	2.69%	-30.59%	-24.84%	16,057.44	47.9%
Russell 2000	1,742.24	3.56%	4.66%	-22.41%	-20.96%	2,442.74	40.2%
MSCI EAFE (USD)	1,679.67	0.54%	1.09%	-28.10%	-26.37%	2,398.71	42.8%
MSCI Emerging Markets (USD)	865.04	0.20%	-1.23%	-29.79%	-30.97%	1,444.93	67.0%
Bloomberg Commodity Index	111.27	-2.11%	-0.20%	12.20%	10.43%	237.95	113.9%
Barclays U.S. Aggregate Bond	85.37	-1.06%	-2.67%	-18.48%	-19.08%	112.07	31.3%

Source: FactSet

**U.S. equities posted the largest weekly gain since June, just one week after setting a 2022 closing low on 10/12/22.** The widely-followed, large company S&P 500 equity index gained 4.7% the week ended 10/21/22, closing at a level of 3,753. The index was flat over the first two weeks of October, but as of 10/21/22, was up 4.7% for the month, and the large company Dow Jones Industrial Average performed even better, gaining 8.2% on a price basis (does not include dividends). Amid ongoing headwinds from inflation, rising interest rates, and economic uncertainty, the S&P 500 rallied off recent lows and remained down 21.3% in 2022 year-to-date through 10/21/22. We attribute last week's gains mostly to technical factors as the S&P 500 was lower for seven of eight trading days from 10/4/22 to 10/14/22, and declined 18 of 22 trading days from 9/13/22 to 10/14/22. This created an environment, in our view, where U.S. equities were poised to rally on perceived good news. The recent news and data flow has included early days of third quarter (3Q22) S&P 500 earnings (better than some feared), Federal Reserve (Fed) data (the Fed's "Beige Book" reports regional economic trends eight times per year) indicating that economic activity improved modestly from the prior report in early September, and a decline in the Conference Board's Leading Economic Index (a proprietary index calculated by the Conference Board measuring ten U.S. economic components that anticipates turning points in the economy), suggesting that the odds of a U.S. recession by late 2022 have increased. Mixed (positive and negative) data can lead to improving sentiment as investors continue to evaluate the potential for a soft landing for the U.S. economy (slowing growth, but no recession or a very mild recession). This would allow the Fed to continue raising short-term interest rates to fight inflation, and also provide an environment where earnings results could stay positive in 2023. The S&P 500 has staged several short-term rallies in 2022, gaining 6.2% over four days in early February, 11.2% over three weeks in March, 6.0% over nine days in late May/early June, and then 17.4% from 6/16/22 to 8/16/22. Each of these rallies ultimately did not hold and the index eventually moved lower. We see the potential for more market gains over the near term as earnings continue and the mid-term elections conclude, but in our view, a potential decline in 2023 S&P 500 earnings remains a risk for equities approaching the new year.

**S&P 500 financial results reflect ongoing revenue growth and expected positive, but slowing, earnings for the index as a whole, but with earnings weakness in some sectors.** Through 10/21/22, 20% of the S&P 500 constituents had reported 3Q22 results with reported revenue growth of 7.2% and an earnings decline of 2.8%. By the end of reporting season, revenue growth is estimated to be 8.9% and earnings growth is estimated at 1.5% (that estimate was 2.8% on 9/30/22). Inflation contributes to higher revenue (higher selling prices) but can hurt earnings (higher costs). Seven of eleven S&P 500 sectors are estimated to show Y/Y earnings declines in 3Q22, with growth expected from Energy, Industrials, Real Estate and Consumer Discretionary. While many investors are expecting index-level earnings estimates to be revised lower in 2023, many companies and sectors already face profit pressure, which is known to investors.

**Market focus on interest rates and Fed policy will take a backseat to earnings reports in the week ahead.** Nearly 1/3<sup>rd</sup> (162 companies) of S&P 500 constituents are scheduled to report quarterly results this week, including the four largest (by market capitalization) companies in the U.S., which collectively comprise nearly 20% of the value (per S&P Global) of the index.

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