



# Capital Market Review

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## November 15, 2022

As if midterm elections, interest rates, and inflation were not enough for an exciting start to November, a cryptocurrency meltdown was added to the list. These factors combined to lead the S&P 500 Index to a 3% rise to start the month and include last week's S&P 500 Index rally to close up 6% after a better-than-expected inflation report.

Last week made it clear that the market's top concerns are interest rates and inflation. When the Federal Reserve increased short-term rates by another 0.75% at their November 2 meeting, their commentary made it seem like fewer hikes would be ahead. The commentary was quickly reversed at the post-meeting press conference when Chair Jerome Powell alluded to his mindset that not raising rates enough is a bigger risk than raising them too much. The reason is that the Fed has proven through multiple volatile periods that they have the tools to step in to support economic activity.

Since the Fed meeting, two important data points have been released. First, the jobs report continued to show strong hiring and low unemployment. Then, October CPI was reported at 0.4% for the month and 7.7% for the last 12 months. While both figures are higher than anyone would like, inflation has been moving in the right direction over the past few months. However, markets traded as though this data point could be a key component of the Fed changing its view on rate hikes.

Looking at just October CPI, the 0.4% annualizes to inflation of around 5% over the next 12 months. While the assumption that inflation does not change over the next year is unlikely, this is our most recent data point and it can provide insight. When we consider what the Fed has said recently, one data point reporting less than expected but still above its longer-term objective does not indicate that the Fed will be changing its game plan much, at least for now.

Besides the midterm elections, which appear to have resulted in a split Congress, cryptocurrency made a push to get back in the spotlight when FTX Cryptocurrency Exchange filed for Chapter 11 bankruptcy. Much remains unknown regarding its downfall, but when clients tried to get their money out of the exchange, they were told it was not there. Ironically, a business built on anti-regulation fell due to a lack of regulation.



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