Capital Market Review

By: Joe Clark, CFA, Allegheny Research Team

The Month Ending November 30, 2022

November's market action continued the main themes of 2022: inflation and interest rates. Like October, these factors provided a tailwind for stocks, sending the S&P 500 Index higher by 5.6% during the month and 14.1% so far this quarter. November also marked another month of value stocks outperforming their growth counterparts.

Inflation was the first catalyst to provide a tailwind for stocks. After mid-term elections provided evidence of a split Congress, the most recent inflation data was reported. While inflation remains at multi-decade highs of 7.8%, it is increasing at a slower rate than earlier in the year, which markets view as a positive. But there might be more to the story than stocks just looking at inflation's slowing pace. Based on historical inflationary cycles, on average, the stock market has bottomed six months after inflation peaked. June 2022 was inflation's high at 9.1%, and as we approach the six-month mark, maybe markets are thinking there is positive news ahead.

While inflation provided the month's initial catalyst, Fed Chair Jerome Powell concluded the month with a speech laying out his views on monetary policy. He all but confirmed what markets have been anticipating, rate increases will continue, albeit at a slower pace than the 0.75% we have seen since mid-year. As the Fed continues hiking, most likely at 0.5% or 0.25% increments, and the yield curve becomes further inverted, it could signal economic difficulties in the year ahead.

As we go into the last month of the year, and the two dominant themes are pulling in opposing directions, investors may be thinking about what actions to take in their portfolios. However, we must remember the economy and stock market are different; they react to various data points at different paces. Typically, the stock market is ahead of the economy and bottoms while a recession is ongoing.

What should investors do in this environment? Other than harvesting tax losses in a down year, or avoiding capital gains of certain mutual funds, there is most likely little you can do. The past few years have been one best new idea after another, from crypto, SPACs, NFTs, clean energy, and everything in between. But, as pointed out by JPMorgan, it has been old economy stocks that have outperformed a certain high-flying ETF over the past five years. While it might seem that taking action is needed, most of the time, trusting a long-term strategic allocation is the best answer.

The information included herein was obtained from sources which we believe reliable. This report is being provided for informational purposes only. It does not represent any specific investment and is not intended to be an offer of sale of any kind. Past performance is not a guarantee of future results.

Allegheny Financial Group is a Registered Investment Advisor. Securities offered through Allegheny Investments, LTD, a registered Broker/Dealer. Member FINRA/SIPC.

Allegheny Financial Group · Allegheny Investments

811 Camp Horne Road, Suite 100 • Pittsburgh, PA 15237
Ph: 412.367.3880 • Fax: 412.367.8353
alleghenyfinancial.com • alleghenyinvestments.com