

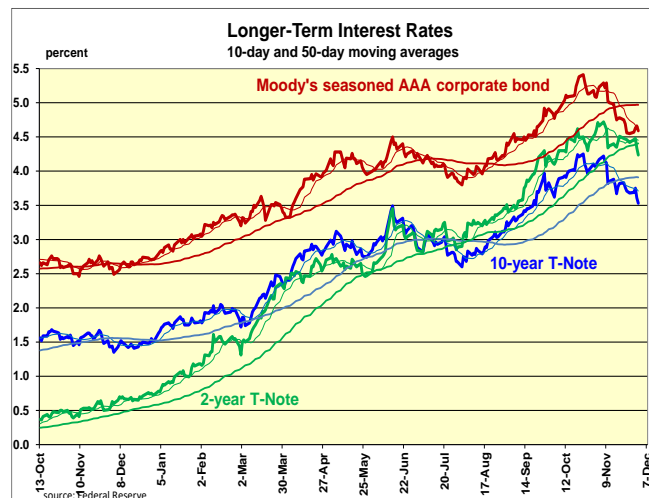
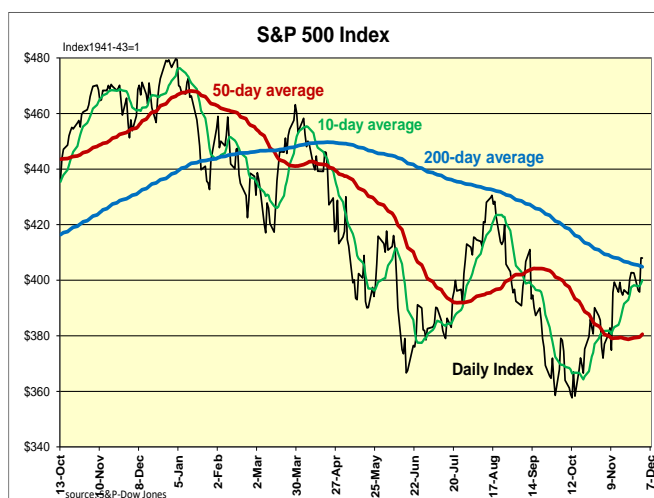


Robert Genetski

December 2, 2022

8:50 AM ET

		<u>Fundamental</u>	<u>Actual</u>	<u>Outlook</u>
Fixed-income:	10-yr Treasury rate	5.5	3.5	heading higher
Equities:	S&P 500	3,200	4077	resistance near 4100



Market Outlook

Both stocks and bonds rallied as markets anticipate the Fed will be successful at bringing down inflation with only a limited downturn in the economy.

The best news—October's consumer core inflation measure—rose at a 2.7% annual rate. Financial markets are convinced the Fed's will succeed in containing inflation. The spread between the yield on 10-year Notes and the inflation adjusted 10-year indicates financial markets expect the inflation rate over the next decade to average close to 2 1/4%.

We all hope the Fed will succeed in bringing about a relatively soft landing with low inflation. While success is possible, we doubt the Fed will pull it off. The weakness in productivity and the collapse in housing activity continue to point to an extended period of weakness ahead. To succeed, the Fed is likely to have to keep draining money from the economy, while expecting the stock market and business to continue as if nothing were happening (See monetary section below).

A Look Back

Today's employment report shows November's private payrolls, increased by 221,000, a 2% annualized rate. Average hourly earnings were up at 8 1/2% hourly rate, up from 6%. The acceleration in earnings indicates the Fed has a long way to in containing inflation.

Yesterday's report on October income and spending shows no indication of any slowdown in either spending, wages or real growth. The good news on inflation was countered by bad news on spending. Spending and wages continue to grow at annual rates of 6% to 9% at the beginning of the fourth quarter. With demand grows this rapidly, future inflation will remain well above the Fed's inflation target.

In contrast to October's strong signals for demand, two business surveys (ISM and S&P) show US November manufacturing activity and new orders declining. The ISM new orders component was 47, the third consecutive month below 50.

Forces Impacting the Near-term Outlook for Stock Prices

Economic Fundamentals: **negative**
Monetary Policy: **restrictive**

Stock Valuation: **over-valued 28%**
Recommended Stock Exposure: **20%**

An alternate S&P PMI manufacturing survey also reported a decline in output and new orders. Since manufacturing accounts for about 10% of the economy, the overall economy still can grow.

Weekly unemployment reports continue to show the first hint of a softening in labor markets. Insured unemployment payments rose to 1.6 million, the highest payment level since April. Initial unemployment claims held up better. The average for the four weeks ending November 26 was only slightly above the 200,000 to 250,000 range of the past seven months.

Monetary Developments

Monetary data show the Fed sold \$280 billion securities since June. Banks have offset these sales by reducing their deposits with the Fed by \$109 billion. Hence, there has been a net decrease of \$171 billion in money entering the economy. This decrease represents the extent of the Fed's tightening. It was sufficient to bring the six-month rate of growth in money to a -1% annual rate and bring the year-over-year change to 26%.

The Fed says it intends to continue to drain funds from the economy. The question is to what extent will upcoming policy moves reduce next year's spending? While no one knows for certain, the normal six- to nine-month lag points to the main impact occurring in the first half of next year. We continue to expect spending to slow enough to plunge the economy into a recession.

The Week Ahead

On Monday, both business surveys (ISM, S&P) will report on November service sector activity, which represents 70% of the economy. As such, Monday's reports are significant. The ISM report for October shows the service sector remained strong with readings in the mid-50s. In contrast, the alternative S&P advanced survey for November shows services sharply declining with a reading of 46.

While there are some signs confirming our expectations for slower growth, there are other signs pointing toward strength. The latest Atlanta Fed estimate of fourth quarter real growth remains close to a 3% annual rate. This estimate is subject to change depending on upcoming data.

The Lighter Side of Political Economy

Maricopa County certifies 2022 election results



Stigis
© 2022 CREATORS.COM
WWW.TOMSTOLICH.COM

Forces Impacting the Near-term Outlook for Stock Prices

Economic Fundamentals: **negative**
Monetary Policy: **restrictive**

Stock Valuation: over-valued **28%**
Recommended Stock Exposure: **20%**