



# ON THE MARGIN

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## November 2022 Recap

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### PRELUDE

It is the nature of public markets to be mispriced from time to time. So it should not be surprising that optimism surrounding monetary policies have lifted risk assets for the last two months. However, Main Street fundamental issues have not changed. Most of the major economies around the world are registering a contraction in economic activity, and the shortages of commodities have not suddenly become abundant in those two months.<sup>1</sup> While equity and credit markets have been finding relief in upward price action, the oil market has been telling us a different story. The global oil benchmark Brent crude fell nearly 10% throughout November at the prospect of decreasing global economic activity. It fell as the Chinese economy struggles, but equity markets continue to anticipate the elusive re-opening play. It fell as Germany's BASF has discussed downsizing "permanently" due to energy issues in Europe, but the MSCI Germany Index rose over 9% in local currency terms. Perhaps the oil market is telling us that we may be getting ahead of ourselves – perhaps we are still in a bear market environment, after all.

### GLOBAL EQUITY

November was another month of gains in the broad equity indices around the world, leaving investors wondering if we are still in a

TABLE 1: Global Equity	NOV	QTD	YTD	1 YR
Dow Jones Industrial Average	6.04	20.96	-2.89	2.48
S&P 500 Index	5.59	14.14	-13.10	-9.21
Russell 2000	2.31	13.58	-14.94	-13.04
Russell 1000 Growth	4.56	10.67	-23.26	-21.64
Russell 1000 Value	6.25	17.14	-3.65	2.42
MSCI ACWI USD	7.76	14.26	-15.02	-11.62
MSCI EAFE USD	11.26	17.25	-14.52	-10.14
MSCI EM USD	14.83	11.27	-18.95	-17.43
MSCI ACWI ex US USD	11.80	15.15	-15.37	-11.87

Source: Bloomberg, as of 11/30/2022. Past performance does not guarantee future returns.



bear market trend. In the U.S., the S&P 500 Index rose 5.6% higher, adding to the 9% gain from October. As the Federal Reserve adjusts expectations of incremental rate hikes from 75 basis points (bps) to 50 bps, the market is interpreting these changes as a "pivot" in policy. However, the fact remains that borrowing costs are still rising, whether by 75 bps or 50 bps, and these increases will still have an impact on corporations and households alike with delayed effect in 2023. With recessionary pressures on the horizon, as well as the expected downward revisions in corporate earnings, the rise in risk assets seems to be a bit optimistic.

Overseas equity markets were the surprise winners, with the MSCI EAFE Index returning 11.3% and the MSCI EM Index posting 14.8% in returns. Much of the return profile is attributable to the falling U.S. dollar against other major currencies, but currency movements are often a distraction from the actual market performance. The positive surprise stemmed from robust performance of these indices in local currency terms. MSCI EAFE local index returned 6.4% while the MSCI EM local index returned 11.7%. These short-term rallies seem out of sync with economic fundamentals. The Purchasing Managers' Indices for most of Europe, China, and Japan indicate economic contraction (Index under 50), the U.K. has entered a recession, and Xi Jinping's zero-COVID policy has sparked unrest of scale not seen in China since 1989. But this is what markets tend to do: oscillate. Despite the shaky fundamentals, international markets outperformed the U.S. markets for the month.

<sup>1</sup> Purchasing Manager Indices are below 50.

## FIXED INCOME

November was good for fixed income returns as yields fell mostly across the U.S. Treasury yield curve and corporate credit spreads tightened further. Longer duration instruments outperformed shorter counterparts as the Treasury curve inverted further into record territory. Reaching a 77 basis point spread between the 2-year and 10-year yields (intraday), the Treasury yield curve displayed deep inversion not seen in more than 40 years. While it is nice to see fixed income returns on the positive side, the shape of the yield curve communicates recessionary pressures that may deepen as we head into the final month of the year.

TABLE 2: Fixed Income	NOV	QTD	YTD	1 YR
<b>Bloomberg US Aggregate</b>	3.68	2.33	-12.62	-12.84
<b>Bloomberg 1-3 Yr Gov/Credit</b>	0.82	0.70	-3.87	-4.02
<b>Bloomberg Treasury 5-7 Yr</b>	2.76	1.98	-10.64	-10.92
<b>Bloomberg Investment Grade Corp</b>	5.18	4.09	-15.39	-15.46
<b>Bloomberg High Yield Corp</b>	2.17	4.83	-10.63	-8.96
<b>JPMorgan EMBI Global Diversified</b>	7.59	7.76	-18.05	-16.90

Source: Bloomberg, as of 11/30/2022. Past performance does not guarantee future returns.

After a flurry of rate hikes in 2022, the Fed seems to be embracing a more measured style. On the final day of November, Chairman Powell gave a speech at the Brookings Institution that sent risk assets on an upward frenzy. Powell indicated a more gradual approach from this point on but holding the rates high for a while. Was the tone truly so dovish to justify a 4.4% one-day increase in the Nasdaq Composite Index? As the members of the Fed go into the blackout period, we will not find out the answer to this question until December 14th at the next FOMC press conference.

## POSTLUDE

As we head into the last month of 2022, sentiment seems to be optimistic. However, if October was the market bottom, then this would be the most expensive bottom in the history of bear markets with the current forward price-to-earnings ratio above 17x. And in the near term, uncertainty hangs in the air. What will the European sanctions of Russian oil do to prices once enacted on December 5th? Will the winter temperatures stay mild for the European continent and the U.K. to help deal with the energy crisis? Will the Chinese government give in to the demands of the protestors and relax their zero-COVID policy? There is also the problem of the debt ceiling for the U.S. federal government. At any given time, uncertainties of that period feel unique and special, but life is uncertain all the time. And sometimes real events outperform the worst expectations, while at other times, risks arise from unexpected places. So I want to continue emphasizing the importance of a properly diversified portfolio, not just for this recessionary period but for all periods shaped by bears or bulls. Like a ship's keel that keeps the body steady and whole in the rough seas, a robust portfolio can help navigate the uncharted waters of 2023.



**Anna Rathbun** serves as the Chief Investment Officer for CBIZ Investment Advisory Services. Her tenure with the firm has spanned economic and market research, portfolio construction, and creating insights in investment themes to share with the investment community. Anna began her career in investments at Wellington Management, and subsequently, Harvard. She has served as a Managing Director for a registered investment advisory firm where she specialized in alternative investments. She is a graduate of Harvard University with a B.A. in Economics. Her early passion for the arts led her to classical music, for which she obtained a Master of Music and Doctor of Musical Arts from the Cleveland Institute of Music. Anna's career in music spanned a wide spectrum of performances to a faculty position at her alma mater. With a unique background that embraces both finance and the arts, Anna is dedicated to the issue of financial sustainability for organizations serving a mission.

International investing poses additional risks, including those related to currency fluctuations and foreign political and economic events.

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