

October CPI report clears the way for a huge week of gains

The week that just concluded was some kind of week. There was turmoil (and massive losses) in the cryptocurrency market as FTX was outed for facing a liquidity crunch. The week ended with FTX Group stunningly filing for Chapter 11 bankruptcy. That wasn't even the half of it.



There was a midterm election on Tuesday, the final results of which are still unknown as of this writing. Reports suggests the GOP will manage to claim a narrow majority in the House, yet some Senate races are still too close to call. In fact, it might take the December 6 runoff election in Georgia to determine if Democrats or Republicans have control of the Senate.

With the GOP holding a narrow majority in the House, though, it is evident that the next few years likely won't include any new major spending plans or tax hikes. In other words, there will be legislative gridlock for the next few years unless the two parties work together to avoid being labeled a "do nothing Congress."

The stock market this week was anything but a "do nothing market." It was filled with trading excitement that produced the best day for the market on Thursday since 2020 and some huge gains for the major indices.

The main catalyst for the excitement was the October CPI report, which came in better than expected and much better than feared.

Briefly, total CPI increased 0.4% month-over-month in October (Briefing.com consensus 0.7%) while core-CPI, which excludes food and energy, increased 0.3% month-over-month (Briefing.com consensus 0.5%). The monthly changes left total CPI up 7.7% year-over-year, versus 8.2% in September, and core CPI up 6.3% year-over-year, versus 6.6% in September.

The key takeaway from the report wasn't singular. It was manifold: (1) The report helped validate the peak inflation view. (2) The report is apt to compel the Fed to take a less aggressive rate-hike approach at the December FOMC meeting. (3) Some encouragement was borne out of the understanding that the shelter index (computed with a lag) contributed more than half of the monthly all items increase, suggesting price increases moderated in many other areas.

This welcome inflation news, combined with a huge drop in the dollar and market rates, launched an epic rally. The Nasdaq Composite for its part soared 7.4% on Thursday. Many of the beaten-up growth stocks made double-digit percentage moves, including Amazon.com (AMZN), but just about every stock came along for the CPI ride.

Growth stocks, though, were the favored rebound candidates as the 10-yr note yield dove 31 basis points to 3.84%. The 2-yr note yield, which is sensitive to changes in the fed funds rate, plunged 32 basis points to 4.31%.

Those moves were precipitated by changing rate-hike expectations. The fed funds futures market now sees an 83.0% probability of a 50-basis points rate hike at the December FOMC meeting (versus 56.8% before the CPI data) and a terminal rate of 4.75-5.00% by June (versus 5.00-5.25% before the CPI data).

The dollar got clobbered on those same shifting expectations. The U.S. Dollar Index fell a whopping 4.0% on the week to 106.42.

The drop in the dollar took some of the pressure off the multinationals and aided in the belief that downward revisions to 2023 earnings estimates may not be as severe as feared, assuming the weakness persists.

Another factor aiding that belief was a Bloomberg report that China relaxed quarantine guidelines for inbound travelers and is aiming to avoid city-wide testing when COVID transmission chains are clear. This news, which came on Friday, helped boost oil and copper prices.

It also added to the market's newfound enthusiasm for a year-end rally. The S&P 500, which dipped below 3,500 following the disappointing September CPI report in mid-October, peeked its head above 4,000 on Friday and closed just below that level when the final bell for the week rang.

All 11 S&P 500 sectors logged a gain this week, none bigger than the information technology sector (+10.0%), which was driven by a huge comeback effort among the semiconductor stocks and by Apple (AAPL) and Microsoft (MSFT). For the week, the Philadelphia Semiconductor Index was up 14.9%.

Other standouts included the communication services (+9.2%), materials (+7.7%), real estate (+7.1%), consumer discretionary (+5.9%), and financial (+5.7%) sectors. The weakest performers were the defensive-oriented health care (+1.8%) and utilities (+1.4%) sectors.

- Dow Jones Industrial Average: +4.1% for the week / -7.1% YTD
- S&P Midcap 400: +5.3% for the week / -10.9% YTD
- Russell 2000: +4.6% for the week / -16.1% YTD
- S&P 500: +5.9% for the week / -16.2% YTD
- Nasdaq Composite: +8.1% for the week / -27.6% YTD

Past performance is not a guarantee of future results. Indices are unmanaged and one cannot invest directly in an index. Diversification does not guarantee investment returns and does not eliminate the risk of loss.

Data and rates used were indicative of market conditions as of the date shown and compiled by Briefing.com. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Each company's security affects the index in proportion to its market value. NASDAQ Composite Index is a market value-weighted index that measures all NASDAQ domestic and non-U.S. based common stocks listed on the NASDAQ stock market. Dow Jones Industrial Average is a widely used indicator of the overall condition of the stock market, a price-weighted average of 30 actively traded blue chip stocks, primarily industrials, but also includes financial, leisure and other service-oriented firms. Russell 2000 Index measures the performance of the smallest 2,000 companies in the Russell 3000 Index of the 3,000 largest U.S. companies in terms of market capitalization. MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Park Avenue Securities LLC (PAS) is a wholly owned subsidiary of The Guardian Life Insurance Company of America (Guardian). PAS is a registered broker/dealer offering competitive investment products, as well as a registered investment advisor offering financial planning and investment advisory services. PAS is a member of FINRA and SIPC.