WEEK IN **PERSPECTIVE**

PARK AVENUE SECURITIES®: **STEP***forward*

Growth concerns lead to modest pullback

The stock market pulled back this week after a big run recently. Trading reflected some consolidation efforts and growth concerns in a slowing economic environment.

The Fed has been in the middle of those growth concerns as Fed officials have reiterated that they are not done yet raising rates. Comments from St. Louis Fed President Bullard (2022 FOMC voter) were the most impactful for market participants this week. He acknowledged that the fed funds rate is not yet at a sufficiently restrictive level and then showed in a Taylor Rule exercise that it may need to go to 5-7% in the battle to get inflation under control.

Other remarks from Fed officials included:

- Fed Governor Christopher Waller (FOMC voter), who said “we’ve still got a ways to go” before stopping interest rate hikes. Later in the week he said, that he’s more comfortable stepping down to a 50-basis point hike at the December FOMC meeting following the economic data releases from the last few weeks.
- Fed Vice Chair Brainard said it may ‘soon’ be appropriate to slow the pace of rate hikes.
- Kansas City Fed President George (2022 FOMC voter) for her part said a real slowing in labor markets and a contraction in the economy may be needed to reduce inflation, according to CNBC.
- Boston Fed President Collins (2022 FOMC voter) said in a CNBC interview that a 75 basis point rate hike is still on the table.
- San Francisco Fed President Daly (2024 FOMC voter) said that the idea of the Fed pausing its rate hikes is not even on the table for discussion right now and that she thinks a 5.00% fed funds rate is a reasonable level where the Fed can hold rates.

The continued inversion along yield curve this week reflected worries about the Fed over tightening. The 2-yr Treasury note yield rose 19 basis points this week to 4.50% while the 10-yr note yield fell one basis points to 3.82%.

Meanwhile, market participants received some data this week that played into investors’ concerns about a deteriorating economic outlook. The October Producer Price Index revealed some welcome disinflation at the producer level with total PPI up 8.0% yr/yr, versus 8.4% in September, and core PPI, which excludes food and energy, up 6.7% yr/yr, versus 7.1% in September.

There was also the Retail Sales Report for October, which reflected a 1.3% increase following a flat reading in September. Despite the stronger-than-expected retail sales data, there is a concern that discretionary spending activity is apt to slow in coming months as more consumers feel the pinch of rising interest rates, stubbornly high inflation, a reduced wealth effect, and increased layoff announcements and concerns about job security.

Retailers Target and Walmart acknowledged that consumers were pulling back on discretionary purchases after reporting earnings this week. Walmart reported good results for its fiscal third quarter, but CEO John David Rainey noted that consumers were “making frequent trade-offs and biasing spending toward everyday essentials.”

In general, there was a positive response to earnings reports from retailers this week. Lowe’s, Macy’s, Bath & Body Works, Ross Stores, Foot Locker, Gap, and Dow component Home Depot all traded up after reporting their respective quarterly results.

For the tech sector, Cisco, Applied Materials, and Palo Alto Networks also enjoyed some gains after their earnings reports.

There were some not-so-great quarterly results, too, that were met with selling efforts. William-Sonoma and Advance Auto both suffered losses after disappointing with their earnings reports.
Micron was another standout individual after cutting its DRAM and NAND wafer starts by ~20%, saying that the market outlook for calendar 2023 has recently weakened. Micron also said it is working toward additional capex cuts.

An added point of concern that market participants dealt with this week is that earnings estimates for 2023 are too high and will be subject to downward revisions. Investors took some money off the table this week and are mindful about how much they are willing to pay for every dollar of earnings.

To be fair, some contrarian buying interest was stoked by BofA Global Fund Manager Survey early in the week that showed an elevated cash position of 6.2%.

There was a knee-jerk response to a halting report earlier this week that a Russian bomb had killed two people in NATO state Poland. This development raised the market’s anxiety level about the geopolitical situation and potential for a wider conflict in Russia’s war with Ukraine. However, follow-up intelligence reports suggested the missiles were not fired by Russia and there wasn’t any deliberate action here. That finding helped mitigate the angst surrounding the initial report.

Also, the cryptocurrency market continues to be in focus as more news emerges about the FTX meltdown.

Only three S&P 500 sectors squeezed out a gain this week, utilities (+0.8%), health care (+1.0%), and consumer staples (+1.7%). On the flip side, energy (-2.4%) and consumer discretionary (-3.2%) were the biggest losers.

- Dow Jones Industrial Average: UNCH for the week / -7.1% YTD
- S&P Midcap 400: -0.9% for the week / -11.7% YTD
- Russell 2000: -1.8% for the week / -17.6% YTD
- S&P 500: -0.7% for the week / -16.8% YTD
- Nasdaq Composite: -1.6% for the week / -28.8% 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.

2022-147123 (Exp. 02/23)

PARK AVENUE
SECURITIES