December 6, 2022

Dow Jones	S&P 500	NASDAQ	Russell 2000	10 yr Treas	Bitcoin	Gold	Crude Oil
33,597	3,941	11,015	1,810	3.51%	16,989	$1,783	$74.41

Investment Strategy Report

Stocks Continue Their Gains In November As Interest Rates and Inflation Pressures Ease

Stocks extended their winning streak to 2 months, as they ended November with solid gains. However, volatility continued to be high as stocks churned up and down throughout the month. The S&P 500 ended the month up 5.6%, but if you removed its 2 best days, Nov. 10th up 5.5%, and Nov.30th up 3.1%, the result would have been very much different. That big up day on Nov. 10th came as a result of the market's reaction to comments made by Fed chairman Powell as he talked about a possible moderation in the pace of interest rate hikes. It wasn't much of a change in the Fed's stance, but the markets were looking for any morsel of positive news, and that was enough to send them soaring.

As I mentioned last month, stocks seem to want to rally. To begin with, this is a very favorable time for stocks, from October of the mid term election year to the following September. In addition, the extreme negative sentiment among investors is, from a contrarian standpoint, another positive factor for stocks. The only thing standing in the way of a rally it seemed, was the Fed and its chairman putting the squeeze on the economy, as they ratcheted interest rates higher. However, while the Fed chairman and the governors talked about intolerably high inflation, the markets were telling a different story. With mortgage rates doubling in the past year, the housing market is facing a serious slowdown. The money supply, which the Fed had juiced up over 25% in the response to the pandemic, is now contracting at the fastest pace in over 60 years. The price of oil, which peaked at over $120 a barrel, is now priced at $74, as fears about a global slowdown are getting stronger. And the yield on the 10 year Treasury note has now dropped from 4.21% on Nov. 7th to its current level of 3.51%.

The Fed can generate all the data it wants on the state of the economy and interpret it however it wants. But the bond markets have the final say, since they reflect the true rate of inflation. And when the yield drops 70 basis points in a matter of weeks, the message is very clear, that the economy is slowing down and that inflation is no longer a threat. And the Fed might finally be getting the message that their job is almost done. I expect that they will continue with their tough talk since their main objective is to fight inflation. But at some point, the message of the markets will be hard to ignore, as falling interest rates will take precedence over backward looking Consumer Price Index (CPI) data. The Fed will not want to do unnecessary harm to the economy if they don't have to.

Jeff Gundlach, bond guru and founder of the DoubleLine fund family, gave his year end webinar today, and for the first time in a while, seemed fairly optimistic about the prospects for stocks and bonds for next year. He is confident that inflation is declining and will continue to decline next year. He feels that the CPI can fall next year as quickly as it rose this year, predicting that we can see a 2.5% CPI 12 months from now. Because of falling inflation, he forecasts that the Fed won't have to raise the Fed funds rate to 5.0% as many are predicting, but instead will probably stop at 4.5%. He even feels that the substantial decline in the CPI might not stop at 2.5%, but might instead continue to fall further. If that occurs, he sees a massive bond rally. His DoubleLine Total Return bond fund currently has a yield of 6.2% and a duration of 6 years. After the worst year for bonds ever, funds like his can do very well next year. And if a slowing economy tips over into recession, bonds will undoubtedly provide the cushion for stocks that they failed to do this year.

As interest rates have begun to fall, the dollar, which has surged this year, has begun to weaken. This will provide a more favorable environment for emerging market stocks, which benefit from the weaker dollar. The same can be said for gold and other precious metals, which would also benefit from the weaker dollar. While many investors are fearing an economic slowdown and possible recession next year, investors should still be able to find opportunities for a better 2023. *Jeff Feldman*

Happy Holidays and A Very Safe and Healthy New Year!