

Weekly Market Insights

October 24, 2022

A World Turned Upside Down

Financial Markets

Equity markets continued to be volatile this past week. There were, of course, many reasons for this volatility, none of which have been relieved. In fact, the reasons have increased. There was talk by some Fed officials that perhaps the time is approaching for the Fed to reduce the size of the rate hikes to 50 basis points rather than 75. This would be the December rate hike, not November's.

Barron's columnist Nicholas Jasinski coined a nice phrase to describe this behavior, "violently flat." Things of course can change rapidly, but, for the moment, investors should expect more of the same.

The Dow closed the week up 4.89%, the S&P 500 closed up 4.74%, while the NASDAQ closed the week up 5.22%.

Economics

Our title is the name of the tune that Lord Cornwallis's troops played at the surrender of Yorktown in 1781. Perhaps it is an overstatement to say that today, but it seems as if there are a lot of changes that make the name of the tune useful.

Until recently, we thought China was on a path of peaceful economic competition, capitalism with a Chinese flavor. President Xi's speech at the CPC meeting proved that to be incorrect. President Putin's unprovoked attack on Ukraine and his speeches have put a damper on East-West

rapprochement. Britain finds itself in deep political turmoil, and we in the United States find ourselves in the throes of the midterm election scramble and associated rhetoric. Why do we list the seeming political problems of the world when our topics are economics and markets? Because, as we have written many times, markets reflect the hopes and fears of society, whether economic or not. In times like these, solving economic problems can be more difficult, and investors are inclined to behave a bit faster and less rationally than if they were dealing without outside worries.

In the world of economics, there are a number of positives. The much vaunted shipping and transportation issues on the West Coast appear to be at an end, along with some easing of supply chain problems. Both will, over time, ease price pressures, which, of course, takes some of the burden off monetary policy actions by the Fed.

Conclusion

The most obvious conclusion is that elevated volatility will persist. November will be an important month. The midterm elections are being watched with more anxiety than normal. The issues are not as impactful as the dreadful rhetoric. Once the midterms are over, investors can concentrate more on the economic issues. Volatility will not be dead, but, perhaps it will be more subdued, as at least one unknown will be eliminated.

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