

# Weekly Market Insights

November 14, 2022

## A Red Wave Turned Mill Pond and a Market Roar!

### Financial Markets

As readers know by now, this past week was filled with surprises. Clever pollsters and analysts predicted a red wave of Trump-backed Republican candidates and looked forward to an interesting market reaction. The former was a flop, while the latter occurred, but in a more dramatic fashion than expected.

Equity markets staged a remarkable rally as the red wave became a ripple. Of course, there was more to the rally than the election results, but more on this later.

The Dow gained 4.15%, the S&P 500 gained 5.90%, while the NASDAQ gained 8.10%. As we wrote above, economic releases certainly inspired investors to aggressively enter the market, but the election returns must have set the stage.

### Economics

By far, the most encouraging economic news this past week was on the inflation front with the Consumer Price Index release. It came in at a 7.7% year-over-year increase. This, of course, is not a subdued inflation number by any means, but it was lower than expected and marked a deceleration from the prior month. The combination of election results and good news on inflation brought investors into the equity markets. Investors are hoping that inflation continues to trend lower and influences the Federal Reserve to slow the pace of interest rate hikes to 50 basis points. Less aggressive U.S. monetary policy will have a strong effect on the global economy by lowering the relative value of the U.S. dollar. This would particularly help emerging market countries trying to pay off debts in U.S. dollars with local currencies.

What is one of the most important economic areas to watch as the new Congress settles in? Trade policy is certainly one. Interestingly, both the far right and the progressive left have problems with trade. Trade is a vital part of any economy, and, when properly negotiated, benefits all. We will keep a close watch and keep our readers informed.

Last week, we wrote that globalism is not dead in the twentieth century. President Biden has been speaking about a renewed effort to strengthen economic ties with both Asia and South America. This can result in enormous economic gains for all.

The two big international stories remain in China and Ukraine. The Ukrainian forces have been making territorial gains against Russia, and, last week, President Zelensky laid out conditions for peace discussions. They seem to be a nonstarter. It is unlikely that Putin would accept those conditions, but perhaps it was just an opening gambit.

The China problem is quite different. President Xi is changing the direction of China, and many in the West are confused about why and how. When trying to analyze others' motives, it is natural to superimpose your own motives. It is easy to apply this thinking to President Xi. Although to many, Xi may not seem to be ideological, he is, and it is important to recognize this. He is not a Putin, but he is a 21st century Mao. His economics are Marxist, but his politics are Leninist. Writing in *Foreign Affairs*, Kevin Rudd<sup>1</sup> described the ascent of Xi, "as nothing less than the return of the "Ideological Man." In speeches to the CCP Congress, he openly rejected Deng's policy of slow but sure progress.

<sup>1</sup>Kevin Rudd became President and CEO of Asia Society in January 2021 and has been president of the Asia Society Policy Institute since January 2015. He served as Australia's 26th Prime Minister from 2007 to 2010, then as Foreign Minister from 2010 to 2012, before returning as Prime Minister in 2013. He is also a leading international authority on China. He began his career as a China scholar, serving as an Australian diplomat in Beijing before entering Australian politics.

# Weekly Market Insights (cont'd)

---

However, he clearly hasn't forgotten pre-communist Chinese history. He remains haunted by the "century of humiliation." Xi has said in speeches that forgetting history would be a *betrayal*. Why spend so much time on something seeming more political than economic? Because it deeply affects economic relations. Regardless of China's ideology, the West will always trade and negotiate with China, and, if they don't realize what they are dealing with, they won't find success.

## Conclusion

It has been a momentous week, one that has made investors breathe a little easier. There are a number of things we believe investors should bear in mind.

We are happy that this past week's inflation numbers were positive, but we remind investors that one number does not mark a trend. The U.S. economy appears to be in the strongest relative position, and, if the dollar falls, exports should rise. We believe there is an opportunity for some positive movement on trade agreements, and, given how much time we spent on China, readers should recognize how important we believe China is both economically and politically.

Hopefully the vitriol in the political world will cool. If this happens, among the many benefits, investor moods and confidence should improve. We feel that investors should start this week certainly more confident than they started the week before.

Michael Olin Clark  
Senior Advisor  
[moclark@1919ic.com](mailto:moclark@1919ic.com)

Ryan Schutte, CFA, CFP®  
Investment Associate  
[rschutte@1919ic.com](mailto:rschutte@1919ic.com)

Abigail McKenna  
Senior Portfolio Associate  
[amckenna@1919ic.com](mailto:amckenna@1919ic.com)

## I. Front End Disclosure

The information provided here is for general informational purposes only and should not be considered an individualized recommendation or personalized investment advice. No part of this material may be reproduced in any form, or referred to in any other publication, without the express written permission of 1919 Investment Counsel, LLC ("1919"). This material contains statements of opinion and belief. Any views expressed herein are those of 1919 as of the date indicated, are based on information available to 1919 as of such date, and are subject to change, without notice, based on market and other conditions. There is no guarantee that the trends discussed herein will continue, or that forward-looking statements and forecasts will materialize.

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all clients and each client should consider their ability to invest for the long term, especially during periods of downturn in the market. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those shown.

All investments carry a degree of risk and there is no guarantee that investment objectives will be achieved.

This material has not been reviewed or endorsed by regulatory agencies. Third party information contained herein has been obtained from sources believed to be reliable, but not guaranteed.

There is no guarantee that employees named herein will remain employed by 1919 for the duration of any investment advisory services arrangement.

**1919 Investment Counsel, LLC** is a registered investment advisor with the U.S. Securities and Exchange Commission. 1919 Investment Counsel, LLC, a subsidiary of **Stifel Financial Corp.**, is a trademark in the United States. 1919 Investment Counsel, LLC, One South Street, Suite 2500, Baltimore, MD 21202. ©2022, 1919 Investment Counsel, LLC.

## II. Investment Analysis

The information shown herein is for illustrative purposes. 1919 may consider additional factors not listed here or consider some, but not all, of the factors listed here as appropriate for the strategy's objectives.

There is no guarantee that desired objectives will be achieved. 1919 has a reasonable belief that any third party information used for investment analyses purposes is reliable but does not represent to the complete accuracy of such information by any third party.

## III. Portfolio Composition

For illustrative purposes. There is no guarantee that the portfolio composition for the strategy discussed herein will be comparable to the portfolio shown here.