MONTHLY
MARKET REVIEW

11 2022

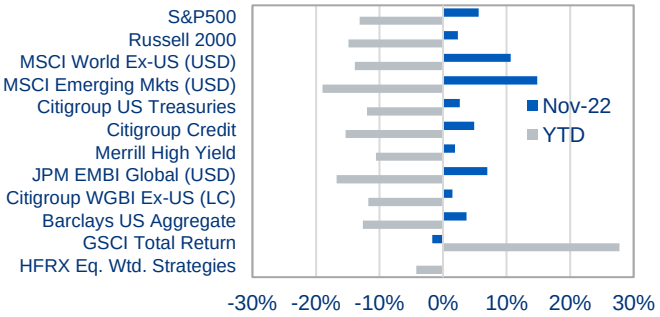
Strategic Investment Group®

Global Market Review

Global equity markets rose further in November, extending October's gains. Non-U.S. advanced and emerging equity markets outpaced the U.S. market, helped in part by the depreciation of the U.S. dollar. Global bond markets also rallied, with non-U.S. fixed income markets outperforming the U.S. The improved equity and bond market sentiment reflected expectations that global price pressures may have peaked, allowing the Fed and other major central banks to slow the pace of monetary tightening. Notwithstanding the improvement in sentiment, the macro backdrop remains uncertain and inhospitable. The U.S. and Europe appear on the verge of falling into recession, and growth in China is slowing. Partly reflecting concerns over global growth prospects, oil prices fell sharply in November, but remained up for the year. Indeed, global spending on energy as a share of GDP is near historic highs, weighing on consumer spending in other areas.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



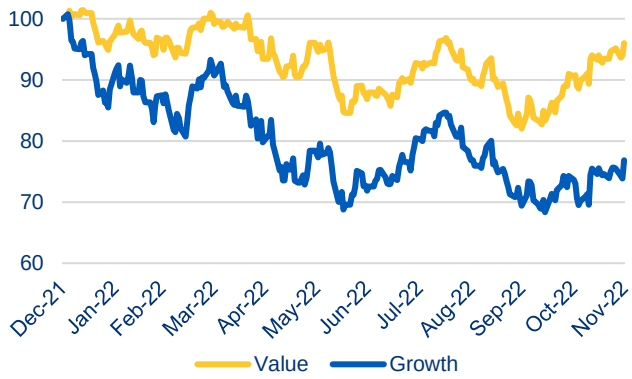
Global equity and bond markets extend rally in November.

U.S. Equities Rally Continues

U.S. equity markets rose again in November, following October's strong gains. After its 8.1% jump in October, the S&P500 returned a further 5.6% in November. Despite the gains of the past two months, the index remains down 13.1% so far in 2022. November's rally, like that of October, was broad based across sectors and style segments. Value stocks performed especially well, gaining 6.1% in November, outperforming the 4.4% return of growth stocks. Value stocks have led growth throughout the year, with value down 4.0% so far in 2022 compared to the 23.1% plunge of growth stocks (Exhibit 1).

Exhibit 1. Value Stocks Handily Outperform Growth

Source: Bloomberg. Russell 3000 Growth and Value Indexes. January 1, 2022 = 100.



Stubbornly high Inflation and the prospect of tighter monetary policies have been major drivers of market sentiment this year. The rebound in markets of the past two months largely reflects the hope that price pressures may be abating, allowing central banks to slow the pace of tightening. There are some signs that this may well be the case. Supply chain bottlenecks are easing, and shipping costs have fallen. Energy prices have also declined, although the costs of energy remain high. House prices are also down. While this decline will be reflected in the official statistics with a significant lag, the impact is likely to be large since shelter represents nearly one third of CPI. On the demand side, wage increases have not kept pace with inflation resulting in a decline in real disposable income that will ultimately constrain consumer spending. While good for inflation, this would come at the cost of slower growth.

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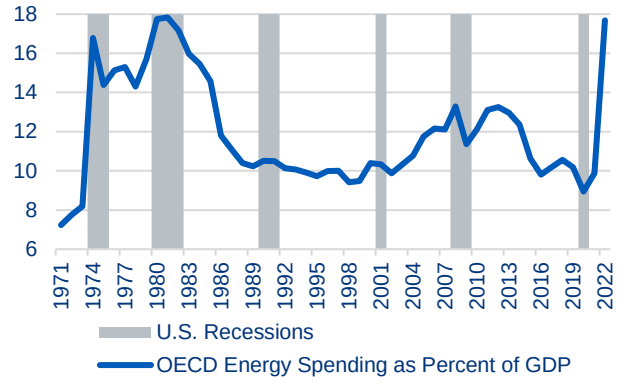
Harbingers of Impending Global Recession

While a soft landing cannot be ruled out, there are mounting indications that the U.S. and other major economies are on the verge of recession. In past tightening cycles, an inverted yield curve between 3-month and 10-year maturities has been a harbinger of recession. The U.S. Treasury yield curve inverted in October, signaling market expectations of increased risk of a downturn. In addition, energy spending as a share of OECD GDP is near the all-time highs reached during the oil shocks of the 1970s and 1980s. These shocks were soon followed by falling output (Exhibit 2). In part reflecting price pressures from rising energy costs, real household disposable income in the U.S. has fallen steadily since the spring, a development that will ultimately dampen spending. The impact of higher energy costs on households and firms in Europe has been even more severe. Finally, the rapid tightening of monetary policy by the Fed and other central banks has increased borrowing costs, including mortgage rates, discouraging new construction, and contributing to falling home prices. More broadly, the wealth effect of declining asset prices triggered in part by tighter monetary policies will likely further curtail spending on consumption and investment.

Exhibit 2. Soaring Energy Costs Crowd Out Spending
Source: OECD & FRED. Percent share of OECD GDP spent on energy.

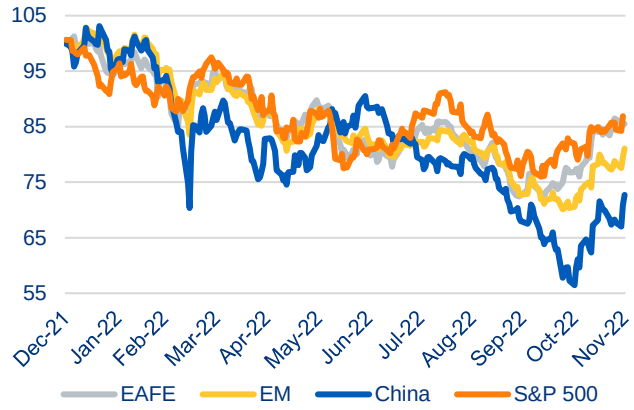


Chinese Equity Markets Soar

Heartened by the prospect of dissipating price pressures, non-U.S. equity markets rose sharply in November. The MSCI World ex-U.S. index of advanced economy stocks jumped 10.7% in November adding to its gain of 5.5% in October. A declining dollar added to returns in local currency. Despite the extraordinarily strong performance of the past two months, the index remains down 13.9% so far in 2022. November's strong performance was widespread across countries, with European bourses and Japanese markets enjoying near double digit returns. November's gains were spurred in part by the falling cost of natural gas and electricity in Europe as well as expectations that easing price pressures may limit the ultimate amount of monetary policy tightening.

Emerging equity markets generated even stronger returns, rising 14.8% in November, catapulted by the 28.9% spike in Chinese equities. Chinese equities, which had plunged 16.8% in October, remain down 27.3% so far in 2022 (Exhibit 3). The wide swings and roundabouts of the Chinese equity market roller coaster largely reflect the vicissitudes of policy. Previous sharp downswings were driven by a combination of stringent lockdowns to combat Covid-19 outbreaks, efforts by the authorities to reduce speculation in an overbuilt and overleveraged property market, and the potential for instability in a financial sector heavily exposed to the ailing property market. November's explosive upswing was triggered by indications that the authorities were planning to bailout the property sector.

Exhibit 3. Global Equities Stage Stellar November Rally
Source: Bloomberg. Index. 12-31-2021 = 100.



U.S. Treasury Yield Curve Inverts Further

The U.S. Treasury yield curve inverted further in November as yields at shorter maturities rose while those at the long end declined. The decline in yields at the long end of the curve was driven by both falling real yields and declining inflation expectations. U.S. Treasury prices rose 2.7% in November. U.S. Treasuries with maturities of 10+ years gained 6.9%. Despite this rebound, long maturity Treasuries remain down 27.0% so far in 2022. U.S. investment grade and high yield corporate bonds also rose in November, generating returns of 3.7% and 1.6%, respectively.

Outside of the U.S., the WGBI ex-U.S. index of advanced sovereign bonds rose 6.1% in November but remains down 22.3% so far this year. The emerging bond market index returned 6.9% in November, tempering its loss for the year to 16.8%.

Performance of Major Market Indices through 11-30-2022
Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	5.6%	14.1%	-13.1%	-9.2%	10.9%	11.0%
Russell 2000	2.3%	13.6%	-14.9%	-13.0%	6.4%	5.4%
MSCI World Ex-US (USD)	10.7%	16.8%	-13.9%	-9.5%	2.5%	2.3%
MSCI Emerging Mkts (USD)	14.8%	11.3%	-19.0%	-17.4%	0.1%	-0.4%
Citigroup US Treasuries	2.6%	1.2%	-12.0%	-12.5%	-2.6%	0.1%
Citigroup Credit	4.9%	3.9%	-15.3%	-15.4%	-2.6%	0.7%
Merrill High Yield	1.9%	4.8%	-10.5%	-8.9%	0.7%	2.3%
JPM EMBI Global (USD)	6.9%	7.0%	-16.8%	-15.6%	-4.0%	-1.0%
Citigroup WGBI Ex-US (LC)	1.5%	1.8%	-11.8%	-12.9%	-4.1%	-1.1%
Barclays US Aggregate	3.7%	2.3%	-12.6%	-12.8%	-2.6%	0.2%
GSCI Total Return	-1.7%	4.9%	27.7%	37.4%	13.5%	7.7%
HFRX Eq. Wtd. Strategies	0.0%	0.6%	-4.2%	-3.7%	1.6%	0.9%