ECONOMIC & INVESTMENT PERSPECTIVES

NOVEMBER: STOCKS & BONDS RALLY

GLOBAL ECONOMIC PERSPECTIVE

Figure 1: 11/30/2022 Returns (source: Bloomberg)

Conditional formatting: green (high) to red (low) for each time period

Bonds	ETF	Month	YTD	1YR	vs. 52-wk High	vs. 52-wk Low
US Aggregate Fixed Income	AGG	3.8%	-12.3%	-12.6%	-14.7%	5.5%
Investment Grade Corp Bonds	LQD	6.6%	-16.6%	-16.7%	-19.9%	9.5%
U.S. Treasury Bonds	GOVT	2.7%	-12.8%	-12.4%	-14.2%	3.8%
U.S. 20+ YR Treasuries	TLT	7.1%	-29.4%	-30.8%	-33.8%	11.8%
Muni Bonds	MUB	4.8%	-7.1%	-7.1%	-9.0%	4.8%
High Yield	HYG	3.4%	-9.4%	-7.3%	-13.4%	7.5%
Non-US Corp Bonds	IBND	9.0%	-19.6%	-19.3%	-20.3%	14.5%
Emerging Markets Bond LC	EMLC	7.5%	-11.3%	-10.2%	-17.0%	8.3%
Global Equity						
ACWI Global Equity	ACWI	8.3%	-14.4%	-11.1%	-16.0%	18.4%
United States	VTI	5.2%	-14.5%	-11.3%	-16.4%	16.7%
International Developed	EFA	13.2%	-12.8%	-8.9%	-16.1%	22.9%
Emerging Markets	EEM	15.6%	-18.4%	-17.1%	-22.3%	18.0%
Global Equity by Region						
United States	VTI	5.2%	-14.5%	-11.3%	-16.4%	16.7%
Europe	IEUR	13.2%	-14.6%	-10.2%	-17.9%	26.0%
Asia ex-Japan	AAXJ	20.2%	-19.0%	-18.0%	-22.2%	22.6%
China	MCHI	32.1%	-24.7%	-26.9%	-29.2%	34.2%
Japan	BBJP	11.6%	-15.4%	-13.4%	-19.4%	16.8%
Latin America	ILF	1.0%	16.3%	22.6%	-16.3%	26.0%
US Equity						
US S&P 500	IVV	5.6%	-13.2%	-9.2%	-15.1%	17.1%
NASDAQ 100 QQQ	QQQ	5.5%	-25.9%	-25.0%	-27.5%	15.4%
US Large Growth	IWF	4.5%	-23.4%	-21.9%	-25.0%	15.1%
US Large Value	IWD	6.2%	-3.9%	2.2%	-7.3%	18.6%
US Eqwt S&P 500	RSP	6.6%	-7.3%	-1.5%	-9.8%	19.1%
US Mid Cap	IJH	6.0%	-8.1%	-3.4%	-10.4%	18.2%
US Small Cap	VTWO	2.1%	-15.0%	-13.2%	-17.4%	15.3%

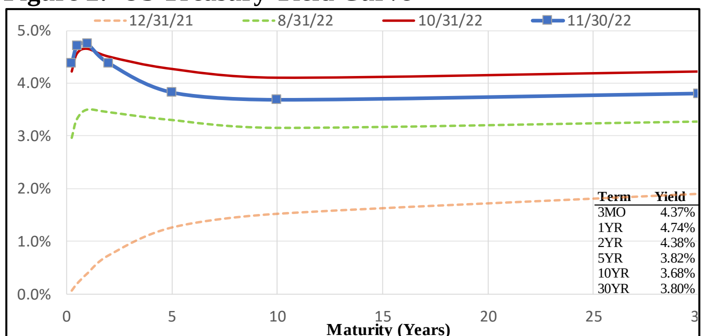
The global market rally in November featured two noteworthy shifts in character: First, bonds joined the party as interest rates moderated after months of rising rates and falling prices; additionally, returns were stronger for non-U.S. assets after months of sustained U.S. out-performance. Hopes that the Fed is nearing the end of its tightening cycle fueled the gains. Performance highlights for the month and year-to-date (YTD) are below.

- Bonds: The U.S. Aggregate index (AGG) rose 3.8% (-12.3% YTD) as longer-term interest rates fell. Corporate bonds (LQD) gained 6.6% (-16.6% YTD), and high yield (HYG) rose 3.4% (-9.4% YTD). A weaker dollar aided non-U.S. corporate bonds (IBND +9.0%) and emerging markets credit (EMLC +7.5%) this month, partially reversing the recent trend.
- Global equity (ACWI): +8.3% in November (-14.4% YTD).
- U.S. Equity: The broad market (VTI) rose 5.2% (-14.5% YTD); the S&P 500 (IVV) gained 5.6% (-13.2% YTD). Large growth stocks (QQQ and IWF) were up but have under-performed YTD on higher interest rates and falling earnings forecasts. Small stocks (VTWO) rose 2.1% (-15.0% YTD). All sectors posted gains for the month, led by basic materials stocks, but energy stocks lagged as oil fell to $81 per barrel.
- Non-U.S. Equity: Developed market stocks (EFA) rose 13.2% (-12.8% YTD), with solid gains in Europe and Japan. Emerging markets (EEM) soared 15.6% (-18.4% YTD), led by a sharp rebound in China (MCHI), which rose 32.1% as investors hoped that civil unrest would lead to loosening restrictions.

Interest Rates and the Economy

The yield curve (Figure 2) plots the yields (Y-axis) for various maturities (X-axis) of U.S. Treasuries. The Fed is expected to announced a 0.50% hike this month from the current Fed Funds target range of 3.75%-4.00%, so short-term rates remain near 5%. Longer-term yields dipped below 4% on hopes that the pace and magnitude of increases will slow. The curve remains inverted (short-term yields higher than long-term yields), signaling recession concerns. The 10-year Treasury bond now yields 3.68%.

Figure 2: US Treasury Yield Curve

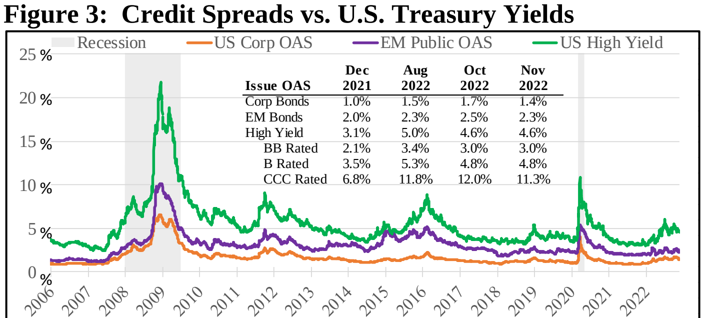


Source: Board of Governors of the Federal Reserve System via St. Louis Fed (FRED)

For bonds other than U.S. Treasuries, we track the option-adjusted yield spread (OAS) versus Treasuries of comparable maturities. Low or narrowing spreads signal optimism while high or widening spreads signal fear. While interest rates declined across the board this month, credit spreads were relatively stable.

- Investment grade corporate bond spreads narrowed to +1.4% but are still wider than the +1.0% spreads at year-end 2021.
- High yield (non-investment grade) spreads were steady at +4.6%, still above year-end spreads of +3.1%. The riskiest bonds (rated CCC & below) narrowed to +11.3% over Treasuries, significantly wider than 2021 year-end spreads of +6.8%.
- Emerging market credit spreads narrowed to +2.3% this month. Emerging market debt has under-performed for most of 2022 due to the U.S. dollar strength, a trend that reversed this month.

Figure 3: Credit Spreads vs. U.S. Treasury Yields

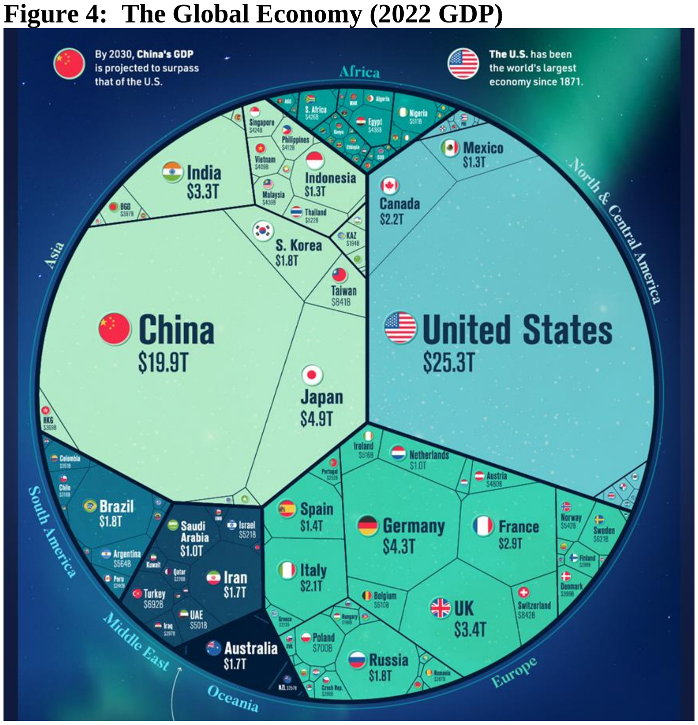


Source: Ice Data Indices, LLC via St. Louis Fed (FRED)

Global Perspective

While nationalistic behavior and isolationism are increasingly evident in various parts of the world, there is no doubt that the global economy is increasingly diversified and inter-connected. In the spirit of the World Cup, we present the "GDP soccer ball" (Figure 4), a detailed snapshot of the $104 trillion global economy by country based on Gross Domestic Product (GDP, i.e., the value of all final goods and services produced in each country).

Figure 4: The Global Economy (2022 GDP)



Source: Visual Capitalist (www.visualcapitalist.com)

The United States remains the world's largest economy, with a $25 trillion annual GDP (24% of global economic output). China is a close second at roughly $20 trillion (19% of global GDP). Japan is a distant third at $4.9 trillion (5% of global GDP), followed by Germany, U.K., India and France, each accounting for roughly 3-4% of the global economy. This hierarchy and the organization of the graphic above illustrate the global economic dominance of the U.S., Asia and Europe, while the economies of South America, Africa, the Middle East and Oceania (i.e., Australia, New Zealand, etc.) are much smaller by comparison.

An analysis of wealth accumulation over time offers further insight into the increasingly global economic landscape. Figure 5 lists the ten wealthiest nations by aggregate household wealth.

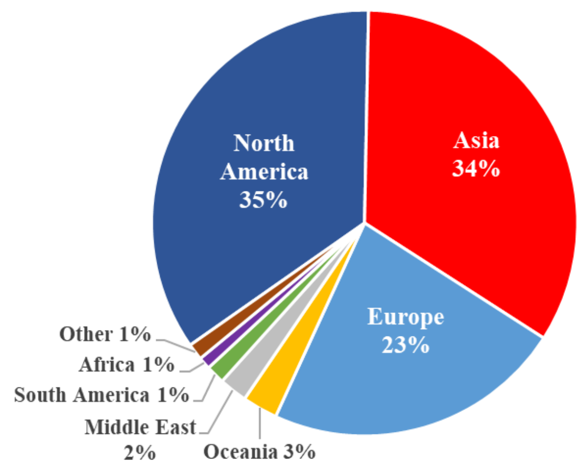
Figure 5: The World's Wealthiest Countries

Country	Household Wealth ($Trillions)	% of World's Wealth	% Global GDP	Global GDP Rank
United States	$145.8	31.5%	24.3%	1
China	$85.1	18.4%	19.1%	2
Japan	$25.7	5.5%	4.7%	3
Germany	$17.5	3.8%	4.1%	4
United Kingdom	$16.3	3.5%	3.3%	5
France	$16.2	3.5%	2.8%	7
India	$14.2	3.1%	3.2%	6
Canada	$12.4	2.7%	2.1%	8
Italy	$11.5	2.5%	2.0%	9
Australia	$10.6	2.3%	1.6%	13
Total:	**$355.3**	**76.8%**	**67.3%**	

Source: Credit Suisse; Visual Capitalist (www.visualcapitalist.com)

Approximately half of the world's household wealth is in the U.S. and China, with the U.S. accounting for the largest share by far (31.5%). In aggregate, these ten nations account for more than three-quarters of the world's wealth and more than two-thirds of global economic activity. Figure 6 summarizes household wealth by region, underscoring the dominance and parity across three primary areas: North America (dominated by U.S.), Asia (China, Japan, India, Taiwan and South Korea) and Europe (led by the eurozone, U.K. and Switzerland). Asia is the fastest growing region by GDP and wealth and is a key driver of global growth.

Figure 6: Household Wealth by Region



Source: Credit Suisse; Visual Capitalist (www.visualcapitalist.com)

Bottom Line

Markets rallied strongly in November as the Fed telegraphed a slowing of the pace and magnitude of further interest rate hikes as they seek to tame inflation. Bonds reversed course to log solid gains as interest rates moderated, partially reversing historic YTD fixed income losses due to higher interest rates (and lower bond prices) for most of 2022. Stocks continued to rally, but U.S. leadership gave way to stronger returns in non-U.S. markets, especially in China where stocks rebounded 32% (MCHI) as the year-long pessimism over government control, regulation and draconian Covid lockdowns began to abate amid growing civil unrest.

The rebound in non-U.S. assets serves as a reminder of the global opportunity set. While the U.S. is the largest economy and the wealthiest nation on earth, three-quarters of the world's economic activity (GDP) and two-thirds of the world's wealth are outside our borders. As we pause our daily routines to watch the World Cup or order holiday gifts on the internet, we are further reminded of the global and inter-connected nature of the economy.

Despite the market rally, inflation and tightening monetary policy in the U.S. and abroad is taking a toll. The economy is slowing, evidenced by a sharp slowdown in homebuilding and a slight but notable uptick in continuing jobless claims (published weekly). In order to tame inflation, the Fed must tighten financial conditions to the point of slowing economic growth, which should lead to rising unemployment and a reset of corporate earnings growth expectations. While painful, such a slowdown is a normal, temporary part of the economic cycle. Given the myriad of geopolitical and economic headwinds, recession remains likely in the U.S. and globally; diversification and a lower risk profile (global stocks and bonds, cash and alternatives) remain appropriate.

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