

OBSERVATIONS

- Stocks and bonds rally in November led by international markets amidst a declining dollar (Chart of Week), developed international (MSCI EAFE) +11.3% and MSCI Emerging Markets (EM) +14.8% for the month. The S&P 500 gained +5.6% in November while in bond markets the Bloomberg US Aggregate rose +3.7%.¹
- Crude Oil (WTI) dropped to 2022 lows of \$74/bbl last week, the lowest since December 2021, and marking a nearly -40% decline since reaching its most recent peak of over \$120/bbl in June of this year.¹
- Euro area inflation in November dropped to 10.0% year-on-year (YoY), below expectations and down from October's 10.6%. The decline was the first since June 2021 but keeps the European Central Bank (ECB) on pace to continue to hike rates in December, with current expectations for a hike of 50-70bps at the ECB's next meeting (12/15/2022).²
- Cryptocurrency lender BlockFi filed for Chapter 11 bankruptcy following the recent demise of FTX—BlockFi joins FTX, Voyager, and Celsius as recent notable bankruptcies.^{1 3}
- Meanwhile the ECB, in a recent [blogpost](#), noted the following of Bitcoin; "For bitcoin proponents, the seeming stabilization signals a breather on the way to new heights. More likely, however, it is an artificially induced last gasp before the road to irrelevance – and this was already foreseeable before FTX went bust and sent the bitcoin price to well below USD16,000."⁴
- The US labor market remains strong. The US economy added 263,000 new jobs in November, while the number of jobs created in October was revised upwards by 23,000. Average hourly wages rose 5.1% year-over-year and the unemployment rate remained unchanged at 3.7%.¹

EXPECTATIONS

- Fed Chair Powell's speech, while not surprising, was largely interpreted as being dovish in nature; noting the pace of rate hikes was set to slow—likely starting in December with only a 50 basis-point hike, versus the three previous hikes of 75 basis points. Powell further noted that Fed was wary of overtightening, but still needed to see additional signs that inflation was cooling, and the labor market rebalanced to allow wage growth to slow from its current pace.⁵ The market's current stance is that we may have moved past peak-Fed hawkishness, but this narrative may be tested at the Fed's next meeting in mid-December.
- Numerous Chinese cities witnessed large, anti-Covid lockdown protests as the Chinese population begins to push back against Beijing's zero-Covid policy. Protests erupted in both affluent coastal cities such as Guangzhou and Shanghai as well as in inland cities such as Lanzhou and Chengdu. Chinese authorities have simultaneously moved aggressively to detain those they judged to be instigators of the protests while national media has highlighted policy efforts to limit further covid-lockdowns and make them less disruptive and more targeted in nature.⁶

ONE MORE THOUGHT: *Declining dollar boosts international markets, can it last?*¹

Through the first ten-months of the year, the US dollar has become almost universally stronger against both developed market and emerging market currencies. However, that trend hit a significant bump in November. The

¹ Bloomberg LP

² https://www.wsj.com/articles/eurozone-inflation-eased-in-november-but-further-rate-rises-likely-11669803087?mod=economy_lead_pos1

³ <https://www.cnbc.com/2022/11/28/blockfi-files-for-bankruptcy-as-ftx-fallout-spreads.html>

⁴ <https://www.ecb.europa.eu/press/blog/date/2022/html/ecb.blog221130-5301eecd19.en.html>

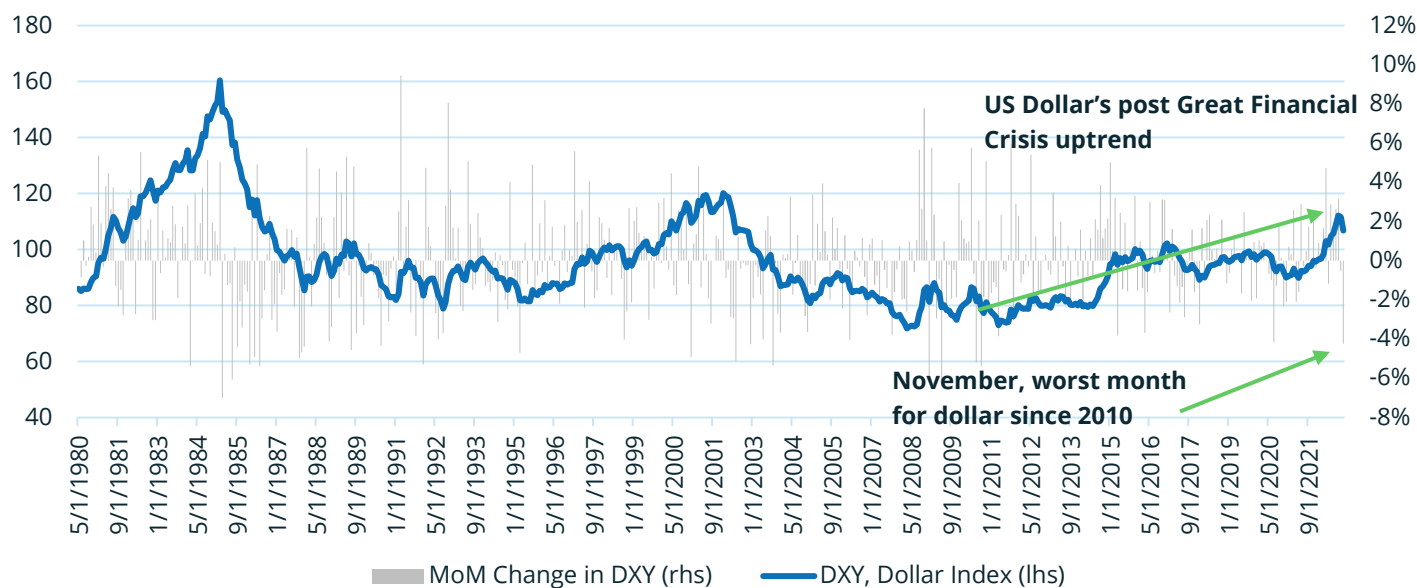
⁵ https://www.wsj.com/articles/jerome-powell-signals-fed-prepared-to-slow-rate-rise-pace-in-december-11669833043?mod=economy_more_pos6

⁶ <https://www.ft.com/content/322595d5-65f7-46de-aa06-f4111d05862c>

notion that the Fed would slow the pace of rate hikes along with shifting sentiment in Europe—that a milder start to the winter and an increase in its energy stores would probably allow it to avoid disorderly energy cutoffs in early 2023—and the news that China was beginning to pivot towards a 2023 that could see the end of its zero-Covid policy sent the US dollar sharply lower. In November, the Euro and British Pound both gained over 5% against the dollar, while Chinese Renminbi gained 4% and the Japanese Yen gained over 7%. In turn, these currency gains boosted the returns of non-US equities for US investors—the MSCI EAFE gained +11.3% in November in dollar-terms, but only +6.4% in local-currency-terms. In the near-term, much of the US dollar's strength is tied to market expectations regarding the Fed's upcoming actions. While the Fed has signaled the pace of hikes will be more measured going forward, the upcoming December 13-14 Fed meeting will provide a new dot-plot outlook that will update markets on the Fed's expectations on how high rates will eventually hit next year. This is likely to keep currency markets volatile and could easily undo much of the dollar's decline in November.

CHART OF THE WEEK

Weak Dollar in November Boosts International Market Returns



Source: Clearstead, Bloomberg LP, data as of 11/30/2022, DXY Index comprised of 57.5% Euro, Yen 14.0%, Pound Sterling 12.0%, Canadian Dollar 9.0%, Swedish Krona 4.0%, and Swiss Franc 3.5% (rounded to half percent)

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