

## FX Effects

Stocks rallied on Thursday despite higher-than-expected Consumer Price Index (CPI) data, then fell back on Friday for a mixed finish to the week. The S&P 500 was -1.5%, the Dow was +1.2%, and the NASDAQ was -3.1%. The 10-year U.S. Treasury note yield increased to 4.006% at Friday's close versus 3.885% the previous week.

Consumer Price Index for September was +0.4% month/month and +8.2% year/year. Ex Food and Energy, the CPI was +0.6% month/month and +6.6% year/year. A contraction in energy prices month-to-month were offset by higher core inflation, especially in areas such as housing, medical care and airfares.

The first part of the third quarter earnings season has also seen mixed results. For the 35 companies in the S&P 500 Index that have reported earnings to date for the quarter, 68.6% have reported earnings above analyst estimates. This is slightly better than the long-term average of 66.2%, but lags behind the prior four quarter average of 78.1%

We move deeper into the Q3 earnings season this week with 66 companies reporting earnings. The current consensus expectation is 3.6% earnings growth on 10.1% revenue growth. For CY2022 earnings growth is currently forecast at 7.1% on 11.6% revenue growth.

In our *Dissecting Headlines* section, we revisit the impact of a stronger U.S. Dollar on economics and corporate earnings.

## Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-1.5%	-23.9%	Aggregate Bond Index	-1.0%	-14.6%
Dow Jones Industrial Average	1.2%	-17.1%	U.S. Dollar Index	0.5%	18.1%
NASDAQ 100	-3.1%	-34.1%	WTI Crude Oil	-7.6%	13.8%
Russell 2000 (Small Cap Index)	-1.1%	-24.3%	Gold	-3.1%	-10.2%
International Stocks (MSCI ex-US)	-2.2%	-26.6%	Real Estate (US REIT Index)	-1.0%	-32.8%

Sources: S&P Global, Thomson Reuters

## Dissecting Headlines: Stronger Dollar

One consistent story this year has been the strength of the U.S. Dollar. In August, the Euro fell below parity with the Dollar for the first time since 2002. More recently, the British Pound nearly fell to parity with the Dollar as well. The economies in Europe are suffering from similar inflationary pressures as the U.S., but energy prices have been particularly exacerbated due to greater dependence on countries such as Russia.

The U.S. Dollar Index, a measure of the value of the Dollar against a basket of currencies used by U.S. trade partners, is 17.6% higher year-to-date. The Euro, which represents 58% of the index, has fallen below parity with the Dollar. The Japanese Yen, which is the second largest currency in the index at 14%, has fallen to a two-decade low. Other currencies in the index include the British Pound, Canadian Dollar, Swedish Krona, and Swiss Franc.

Economic impact of a stronger Dollar includes the relative cost of international travel. Americans would find traveling abroad cheaper, so despite higher airfare, some Americans may find a trip abroad appealing. The flipside is that travel in the U.S. is more expensive in foreign currency terms for international visitors. A stronger Dollar would also make imported goods less expensive, so for example, despite rising material and shipping costs, a German or Japanese car, would be relatively cheaper. The opposite happens for U.S. exports, which would now be more expensive to consumers in other countries.

For the upcoming earnings reporting season, foreign companies with business exposure in the U.S. would have favorable translation in currency back to their local currency earnings. The opposite is likely to happen for U.S. companies. Multinational, U.S.-based companies should see a currency translation headwind from foreign operations when we see their reports for the quarter.

## The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).



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Allan has over 7 years of investment industry experience. Prior to joining NovaPoint, he worked at an independent RIA firm. Allan began his investment advisory career with Edward Jones. He earned his BA from the University of West Georgia.

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