

Animal Spirits

Better than expected Consumer Price Index data let pent up animal spirits run wild last Thursday and Friday. Stocks advanced sharply for the week with the S&P 500 +5.9%, the Dow was +4.2%, and the NASDAQ was +8.9%. The 10-year U.S. Treasury note yield decreased to 3.893% at Thursday’s close versus 4.158% the previous week.

The October CPI was +0.4% month-to-month and core CPI, which excludes food and energy, was +0.3% month-to-month. On a year-over-year comparison, CPI was +7.7% and core CPI was +6.3%. The data was viewed as “cooling inflation” and led investors to sharply shift their bets to a scenario where the Federal Reserve would be less aggressive in its interest rate tightening at the December Federal Open Market Committee (FOMC) meeting.

We are on the downslope of the third quarter earnings reporting period with 460 companies in the S&P 500 Index having already issued their results. This week, 15 companies in the S&P 500 Index are scheduled to report earnings, including many of the major retailers. The current consensus expectation is 4.1% earnings growth on 11.5% revenue growth. For CY2022 earnings growth is currently forecast at 5.8% on 11.2% revenue growth.

In our *Dissecting Headlines* section, we look at the emergence of animal spirits and the fear of missing out.

Financial Market Update

	Weekly Return	YTD Return		Weekly Return	YTD Return
S&P 500 Index	5.9%	-15.1%	Aggregate Bond Index	2.0%	-13.2%
Dow Jones Industrial Average	4.2%	-5.5%	U.S. Dollar Index	-4.1%	10.8%
NASDAQ 100	8.9%	-27.1%	WTI Crude Oil	-3.9%	18.3%
Russell 2000 (Small Cap Index)	4.6%	-15.2%	Gold	5.4%	-3.2%
International Stocks (MSCI ex-US)	7.4%	-17.1%	Real Estate (US REIT Index)	5.5%	-23.7%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: Animal Spirits

Animal Spirits is a term coined by British economist John Maynard Keynes in 1936. It is meant to describe how investors make decisions under periods of uncertainty. When fear and pessimism exist, Animal Spirits are weak. When confidence and optimism exist, Animal Spirits are strong. The stock market moves on a combination of data and emotion. The emotion of market participants is Animal Spirits at work.

While there has been an abundance of pessimism present in the investment markets all year, there was also a sense that investors have been perpetually looking for a sign when the Fed would determine its tightening cycle was complete. While the Fed has anchored its inflation expectation to getting the core Personal Consumption Expenditure (PCE) Price Index back toward a 2% level, investors tend to act on the CPI data which is released earlier each month. We have seen high levels of market volatility at each of the past few CPI data releases as investors tend to switch quickly from fear of losing money to fear of missing out when they see positive data push stocks up for a few days.

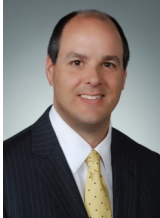
We believe the FOMC is likely to continue raising rates through the first quarter of 2023, but likely at smaller increments than the 0.75% increases seen at the past four meetings. The FOMC acknowledged that the last meeting that it was time to start making decisions not just on the inflation data but on taking a wider approach to understand on how the cumulative effect of rate increases has impacted the economy. The pace of Inflation is likely to recede in coming months and unemployment is likely to rise, especially the continuation of large layoff announcements. The combination of the two are what should prompt the Fed to exit the tightening cycle.

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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