JAMES
Advantage Funds

Planning. Investing. Advice

THE ADVANTAGE

4TH QUARTER 2022

How We See It

In November, the equity markets continued their timid bear market rally that started mid-October as the S&P 500 Index, a broad measure of the stock market, gained 5.59%, and the technology-heavy NASDAQ Index rose 4.51%. All sectors made money, with Basic Materials stocks rising a whopping 11.7% and the Energy stocks lagging, gaining only 1.28% after increasing 70% year-to-date.

The November jobs report showed substantial labor and wage gains. Nonfarm payrolls' gains surprised to the upside, increasing by 263,000, beating the consensus and making it the 23rd month in a row with at least 200,000 new jobs.

These robust labor market numbers are fueling strong consumer spending as retail sales grew by 1.3% in November, beating expectations. Consumers continue to sit on an estimated $1.2 trillion in savings accumulated during the pandemic. However, there is a substantial disconnect between consumer behavior as retail sales continue to exceed expectations while sentiment surveys continue to deteriorate. The Conference Board Consumer Confidence Index dropped in November to a four-month low.

The core PCE (Personal Consumption Expenditure) Price Index, the Federal Reserve's (Fed) favorite inflation gauge, increased by 5.0% year-over-year in November compared to 5.2% in October. The average U.S. Gasoline price per gallon dropped by 32% from its peak of $5.016 per gallon on June 13, 2022.

On the economic front, The Institute for Supply Management's Purchasing Managers' Index (PMI) for manufacturing slipped into contraction territory, showing a deteriorating economy. The housing market continues to struggle as the sharp increase in the 30-year fixed mortgage rates has depressed affordability.

A strong labor market and a resilient consumer, coupled with moderating inflation and a weakening economy are likely to complicate the outlook for the Fed and increase market volatility due to these mixed signals. We continue to favor quality companies with strong balance sheets and favorable pricing power. Smaller capitalization companies are starting to look attractive to us and higher yields on bonds are a very welcome development, even as Fed members threaten to raise rates still higher. The time seems right to look for bargains, but not to be a hero.

Sincerely,

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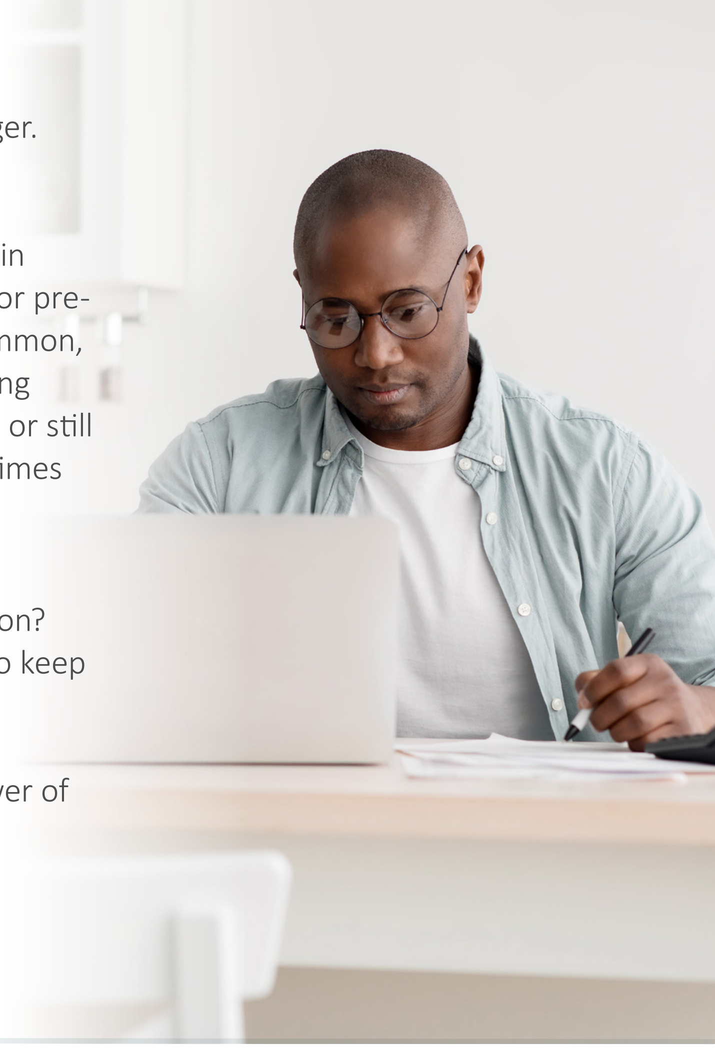
Inflation



It looks like higher inflation is going to stick around a while longer. Higher income consumers may have been able to handle the increased prices for goods and services without making many changes to their financial choices, but for many, it has resulted in looking for ways to make the dollar stretch as far as possible. For pre-retirees, worrying if retirement needs to be delayed is very common, especially when paired with such a volatile market and increasing interest rates. So, whether you are retired, close to retirement, or still in your working years, what should you consider during these times of high inflation?

- Do you need to reassess your living expenses?
- Are you concerned your wages won't keep pace with inflation?
- If retired, are you concerned about your portfolio's ability to keep up?
- Do you need to review your asset allocation?
- Are you concerned about inflation reducing the buying power of your cash savings?

The best way to ease the effects of inflation will be dependent on your specific set of factors. To explore this with one of our professionals, please call us to start the conversation.

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A **James Wealth Management** representative can help determine your ability to withstand market volatility, review your accounts, and provide you with potential options to help improve your situation.

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