At Passage Wealth it is important that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that deserve the most attention this month. If you have any questions or would like to continue the conversation, please reach out.

In its last meeting of the year, the Federal Reserve raised rates by another 50 basis points, bringing the target policy rate to 4.25%-4.5%, up from 0%-0.25% at the start of this year. The meeting followed a better-than-expected inflation report that showed that both yearly headline and core inflation slowed down in November, the second month in a row where this happened[1]. While annual inflation is well above the Fed's 2% target, if this is indeed the start of a trend of improving inflation reports, it will be welcome for markets, as well as for the Fed.

The consumer has been a major driving force behind the economy throughout the year, even despite the rising costs across the economy. The linchpin to that resilience has been the tight job market, which added another 263K jobs in November[2] and brought the total new jobs year-to-date to 4.3 million. Despite headlines of layoffs, particularly in the tech sector, the total number of unemployed people has fallen compared to October as well as last November[2]. The jobs market will be a key component next year as to if, or when, a recession rears its head.

However, despite a strong jobs market, November's retail sales fell 0.6%, particularly hurt by car and car part sales, which dropped by 2.3%[3]. While car sales pulled down the headline number, declines were widespread across the economy and included retail stores, online retailers, and furniture stores[3]. The 0.6% decline in November is the third retail sales monthly decline in 2022 so far, though total retail sales are still 6.5% higher than last November[3].

Economic data doesn't seem to paint a clear picture, and the mixed bag, even as it relates to just the consumer, continued with consumer sentiment improving by 4% in early December[4]. While overall sentiment remains low, consumers feel better about both the current environment, as well as expectations around the future, than they did in November.

The bottom line: While a recession was avoided in 2022, risks remain heading into the new year, and the state of the consumer will be of focus in 2023. The recent improving trend in inflation will also be critical, as it will map out expectations of the Fed's path forward. In 2022 markets experienced a lot of volatility, especially around when expectations around inflation or the Fed shifted rapidly, and that may continue to be the case in 2023 with the potential for markets to sharply react to any surprises.

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Sources:
1. Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm
2. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm
3. Census Bureau, https://www.census.gov/retail/marts/www/marts_current.pdf
4. University of Michigan's Consumer Sentiment Index, preliminary December release, http://www.sca.isr.umich.edu/

The Michigan Consumer Sentiment Index (MCSI) is a monthly survey of consumer confidence levels in the United States conducted by the University of Michigan.