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In this week's recap: Boost early in week keeps markets ahead.

Weekly Economic Update

Presented by Ed Papier, October 10, 2022

THE WEEK ON WALL STREET

A powerful two-day stock rebound cemented a positive week for investors as a new trading month began.

The Dow Jones Industrial Average rose 1.99%, while the Standard & Poor's 500 added 1.51%. The Nasdaq Composite index increased 0.73% for the week. The MSCI EAFE index, which tracks developed overseas stock markets, gained 3.42%. [1,2,3]

STOCKS START STRONGLY

Stocks opened the week posting their best two-day rally since March 2020, as the U.K. prime minister's decision to reverse a tax cut proposal that had upended financial markets the previous week lifted investors. [4]

Falling yields further lifted investor enthusiasm, as did new economic data indicating a cooling economy. Losses in the last two days erased much of the gains as concerns about higher rates and recession once again moved front and center. The selling pressure was due to a stream of hawkish comments by Fed officials and labor market data that suggested the Fed would likely stick with its rate-hike plans.

A MIXED LABOR PICTURE

Employment-related reports offered conflicting signals on the state of the labor market. In a sign of cooling, the number of open jobs in August fell 10%, while a subsequent report from Automated Data

Processing (ADP) showed continued labor market strength. ADP reported private employers added a higher-than-anticipated 208,000 jobs in September, and annual wages rose 7.8% from a year ago. [5,6]

Jobless claims rose to 219,000, up from the previous week's 190,000 and in line with 2019's average. September's employment report showed that employers added 263,000 jobs–slightly lower than expectations. The combination of new hiring and lower labor force participation led to a drop in the unemployment rate to 3.5%. [7,8]

THE WEEK AHEAD: KEY ECONOMIC DATA

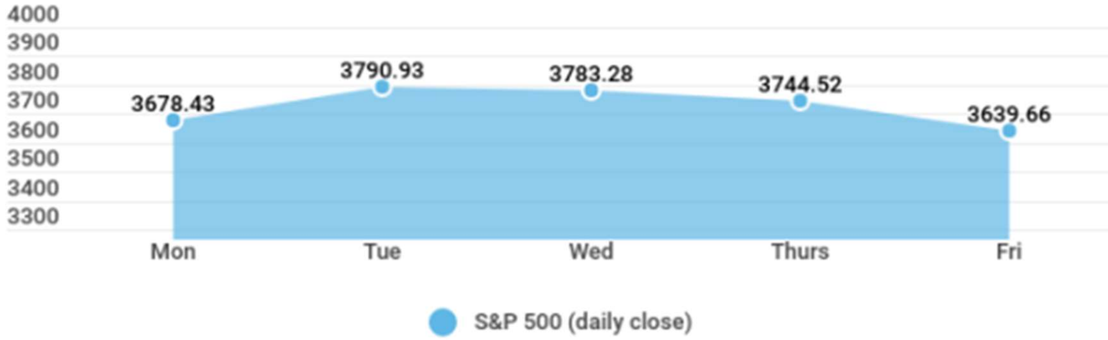
Wednesday: Producer Price Index (PPI). Federal Open Market Committee (FOMC) Meeting Minutes.
Thursday: Consumer Price Index (CPI). Jobless Claims.
Friday: Retail Sales.

QUOTE OF THE WEEK

"The fact that investors see a Fed pivot as the main reason to buy tells you what an immensely perverse incentive monetary policy is and how poor the macro and earnings' outlooks are."

Daniel Lacalle

Market Index	Close	Week	Y-T-D
DJIA	29,296.79	+1.99%	-19.38%
NASDAQ	10,652.40	+0.73%	-31.91%
MSCI-EAFE	1,718.36	+3.42%	-26.44%
S&P 500	3,639.66	+1.51%	-23.64%



	Treasury	Close	Week	Y-T-D
	10-Year Note	3.89%	+0.06%	+2.37%

Sources: The Wall Street Journal, October 7, 2022; Treasury.gov, October 7, 2022
Weekly performance for the Dow Jones Industrial Average, Standard & Poor's 500 Index, and NASDAQ Composite Index is measured from the close of trading on Friday, September 30, to Friday, October 7, close. Weekly performance for the MSCI-EAFE is measured from Friday, September 30, open to Thursday, October 6, close. Weekly and year-to-date 10-year Treasury note yield are expressed in basis points.

OF NOTE

With inflation running hot across global markets, investors are looking for a hedge against stubbornly high inflation. For those looking to achieve inflation-linked absolute returns, infrastructure provides many unique and attractive characteristics that make it a compelling option compared to other asset classes, like commodities or real estate. Given the significant risks within the current market environment, including recession fears, global political tensions, rising global rates and high inflation, we think investors can benefit from growing their allocation to infrastructure.

Infrastructure provides the essential services we use every day; it heats and cools our homes, transports people and goods across borders, and connects us through wireless towers. With its essential role in our economies, infrastructure provides investors with stable and growing cash flows, inflation protection and lower correlations with equity and debt sectors. As an added benefit of the asset class, we see long-term growth in infrastructure with the push toward decarbonization of the global economy.

Infrastructure has two main features that make it a robust inflation hedge, the first being its unique pricing mechanism. In the case of regulated assets, including water, electricity and gas transmission and distribution, rising inflation will have little impact on valuations as inflation can be directly or indirectly passed through to customers. While regulations in different countries have various technical differences, in essence, regulation is designed to protect the return utilities receive for capital investment against macroeconomic changes, which include inflation.

Other infrastructure, like communications, typically have long-term contracts built within their pricing mechanism that include price escalation to account for changes in inflation. Assets with concessions, contracts, tariffs, and tolls, also known as user-pay assets, also pass-through inflation because the control of prices is set in a contract agreed upon at the time of grant of the concession, with volume risk (such as traffic, passenger, and container) borne by the operator. Because of these features, heightened inflation has limited impact on infrastructure asset valuations.

The second feature that makes infrastructure a good inflation hedge is its monopolistic market structure. As mentioned above, infrastructure assets deliver essential services to society and often do not compete with other entities in providing these kinds of services. Water or energy utility companies, for example, are typically the only providers for a given region, which ensures that these companies will continue to have robust demand regardless of what is happening in global markets.

Over the past two decades, we have seen mainstream adoption of both listed and private market infrastructure strategies. But before investors look to expand their holdings in infrastructure, it is important to distinguish between two types of assets: listed and unlisted infrastructure. Listed infrastructure assets are securities issued by publicly traded, liquid, core infrastructure companies, often in regulated utilities and user-pays assets. Unlisted infrastructure assets, on the other hand, are owned by investors directly and not through a public exchange. Some assets, like schools, universities, hospitals and government facilities, are available only through the unlisted market. Over the past decade, unlisted infrastructure has benefited from the growth in allocations to alternatives. Parenthetically, Amadeus has recently added a container ship fund to its list of recommended investments. Another area to review are the upstream gas drillers since Section 263(c) of the Internal Revenue Code provides for the option for investors to fully deduct, as expenses, intangible drilling and development costs incurred for oil and gas wells. These can generate up to 90% deductions of "above the line" deductions. Consult with your tax professional for more detail.

Given the current market environment, we believe there will be a rough road ahead for most equity sectors. Over the past quarter, infrastructure and utilities continued to perform well amid heightened volatility for equities in general, as their stable cash flows, growing dividends, essential service nature and ability to pass through inflation offered a hedge. Investors can access the generational theme of decarbonization through infrastructure as well, including renewables, global regulated utilities and even midstream pipelines that can facilitate the energy transition through hydrogen or carbon capture and storage. This will drive significant opportunities for many listed companies. In short, the current market environment is an opportunity for infrastructure to shine. [9]

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Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

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The forecasts or forward-looking statements are based on assumptions, may not materialize, and are subject to revision without notice.
The market indexes discussed are unmanaged, and generally, considered representative of their respective markets. Index performance is not indicative of the past performance of a particular investment. Indexes do not incur management fees, costs, and expenses. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.
The Dow Jones Industrial Average is an unmanaged index that is generally considered representative of large-capitalization companies on the U.S. stock market. Nasdaq Composite is an index of the common stocks and similar securities listed on the NASDAQ stock market and is considered a broad indicator of the performance of technology and growth companies. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark of the performance of major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. The S&P 500 Composite Index is an unmanaged group of securities that are considered to be representative of the stock market in general.
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CITATIONS:

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