BRENTON POINT
WEALTH ADVISORS

November 17, 2022

Investing Environment Review and Outlook – Volume 65

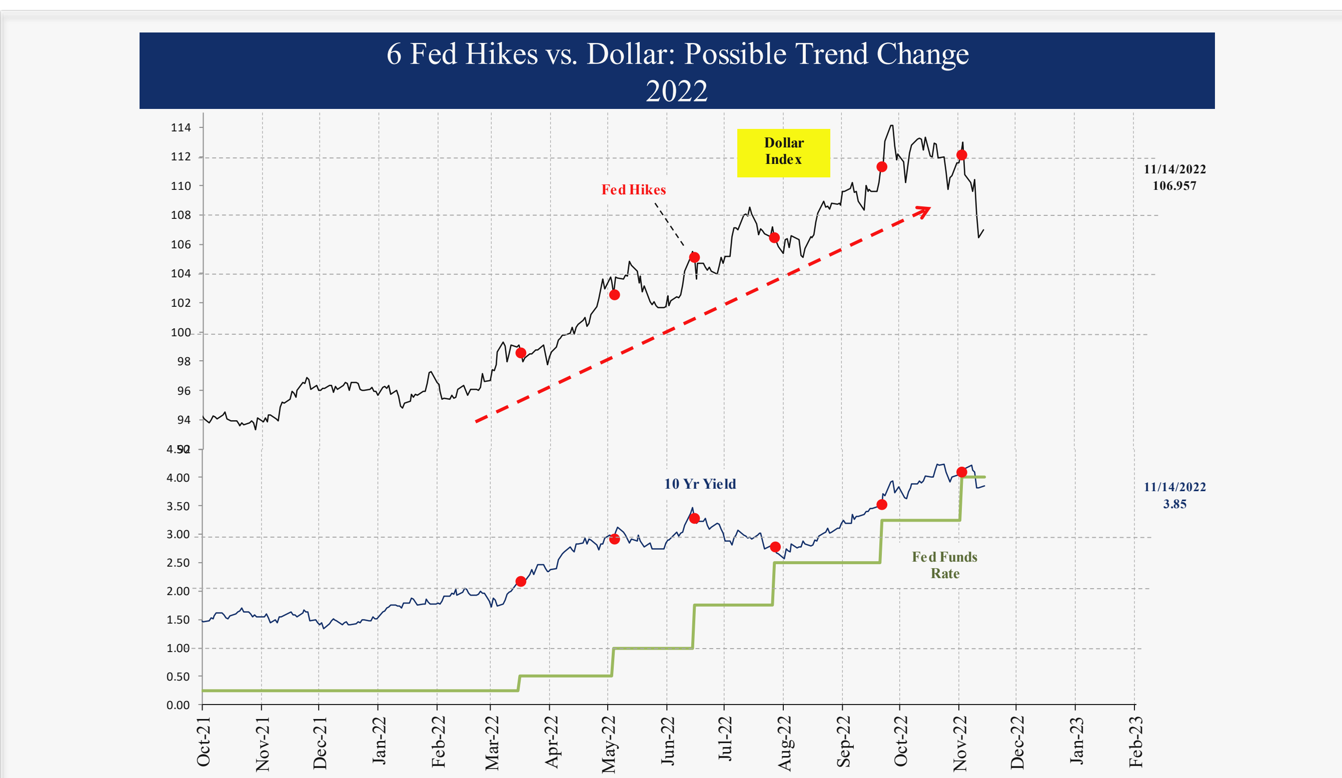
Data Overload

Market volatility in the last two weeks has been unusually confusing and exhausting for most investors. For those who have lost track, the S&P 500 declined 2.5% on 11/2 after the Fed raised rates 0.75% to 4% and promised more to come. Mid-term election results surprised the media on 11/8, then a day later there was a 2.1% decline on contagion fears as the crypto exchange FTX collapsed along with coin prices. On 11/10 the S&P 500 rallied 5.5% after a weaker than expected inflation report and lower long-term interest rates. As a result, investor positioning remains near extreme lows with all 10 investors groups below their norm. The biggest surprise - the S&P 500 is up 14% from the 10/13 low to the close on 11/11, a 99th percentile move since 1950.

Last month we discussed the likely Q4 turning point in the 10-year yield, inflation and equities amid the investor gloom. Conditions remain bullish for equities despite the Fed's rhetoric. The 10-year yield has held the 10/21 peak of 4.3% and even declined 0.5% to 3.8% as of 11/10. However, our research is now less clear on the next big move in rates from here. The October CPI report at 7.7% continued to follow the 5 prior similar inflation peaks since 1950, confirming the June inflation peak of 9.1% was likely a turning point.

Beyond the inflation turn and interest rate peak, **one of the most important signals of the year is the recent Dollar Index reversal**. This month we discuss the investment implications.

We increased U.S., foreign-developed, and emerging markets equities to a bullish 5 rating. We cut long-term bonds back to a neutral 3. Gold remains a bullish 5 and we raised commodities to a bullish 5 rating as well.



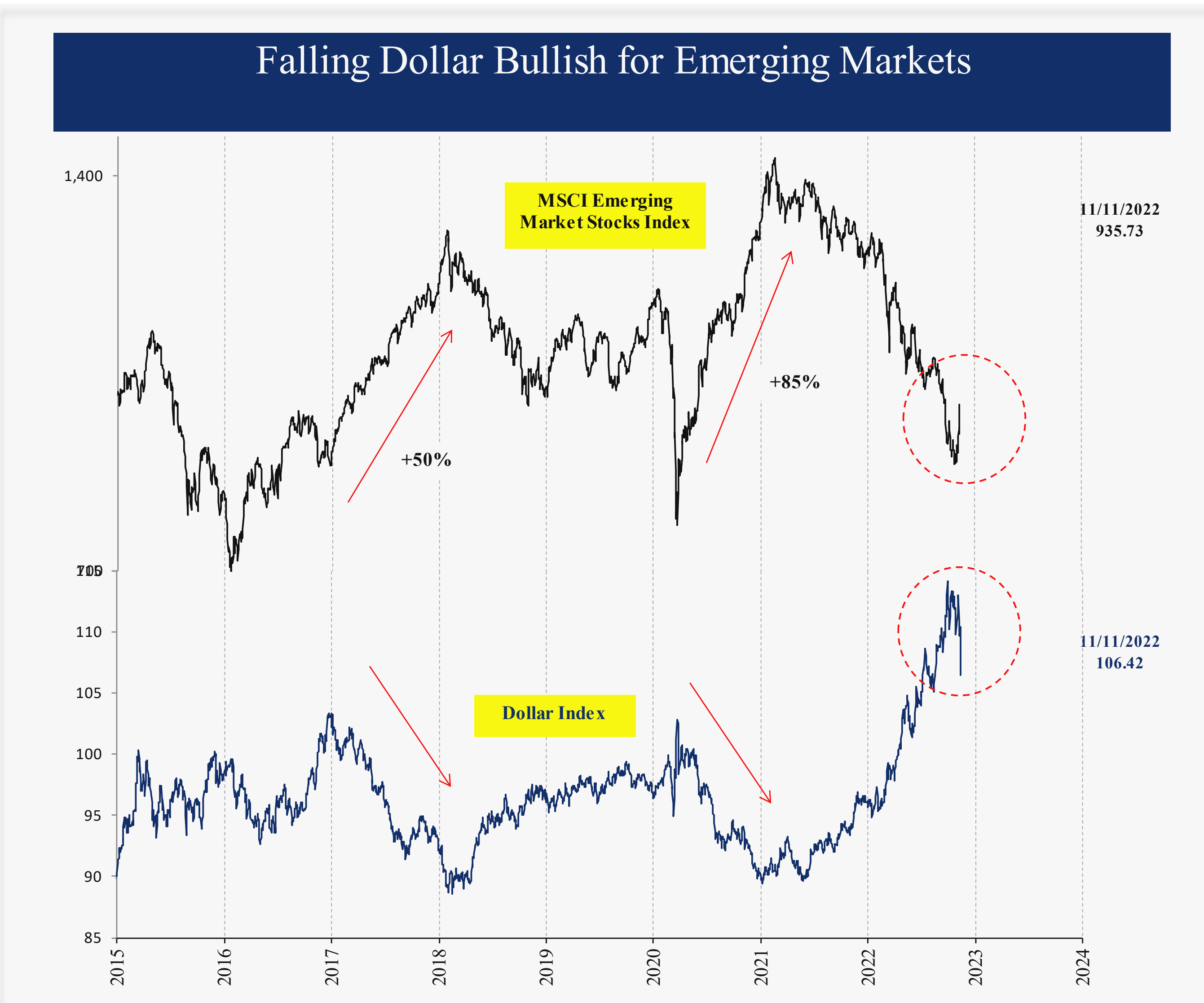
This review and outlook report by Brenton Point Wealth Advisors LLC represents our views and beliefs regarding the current market outlook. Please also read the important disclosures at the end of this report.

BRENTON POINT
WEALTH ADVISORS

November 17, 2022

Dollar Inflection Point: Bullish for Emerging Markets

The 7.4% Dollar Index decline from the September peak could mark a trend change in the dollar. It is the biggest counter trend move since 2020. After a 27% move higher in the last two years, the rubber band is stretched as it pushed emerging markets down 35% from their 2021 peak, resulting in low investor positioning and valuations, with a price earnings ratio of just 9.5. During the last two dollar declines in 2017 and 2020, the MSCI Emerging Markets Index rallied 50% and 85% respectively. With such significant upside potential, we moved the emerging markets rating to a max bullish 5.



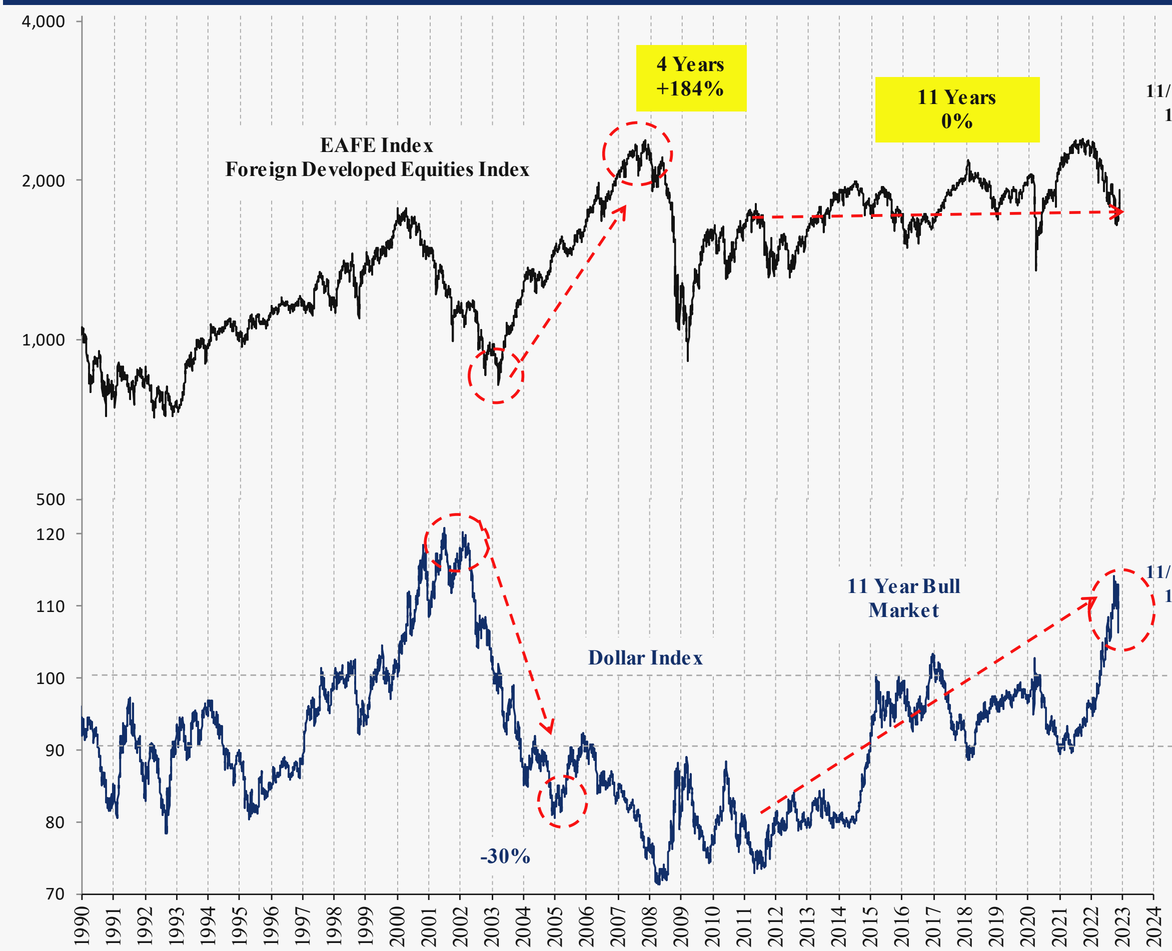
BRENTON POINT
WEALTH ADVISORS

November 17, 2022

Weak Dollar: Bullish for Foreign-Developed Markets

Foreign-developed markets will benefit from a weaker dollar, as well. Although there were other issues like slower earnings growth for foreign companies, since 2011 the MSCI EAFE Index (Europe, Asia and Far East) of developed countries returned a surprising 0% while the S&P 500 was up 250% over the same period, or 12% annualized. An incredible difference. Over that same period, the Dollar Index rallied over 50%. Contrast that to 2003 to 2007 when the EAFE index of foreign equities rallied 184%, over 2x the S&P 500 up just 71%. In that case the Dollar Index declined 30% from 2002 to 2005. The incredibly weak performance of foreign equities means they are under owned by institutions, and undervalued as well at a recent 11.5x earnings vs. 17.5x for the S&P 500, a 35% discount. As recently as 2016, EAFE valuations traded at a premium to the S&P 500. For the potential upside, we increased foreign-developed equities to a max bullish 5 rating in what could be a multi-year outperformance of the group.

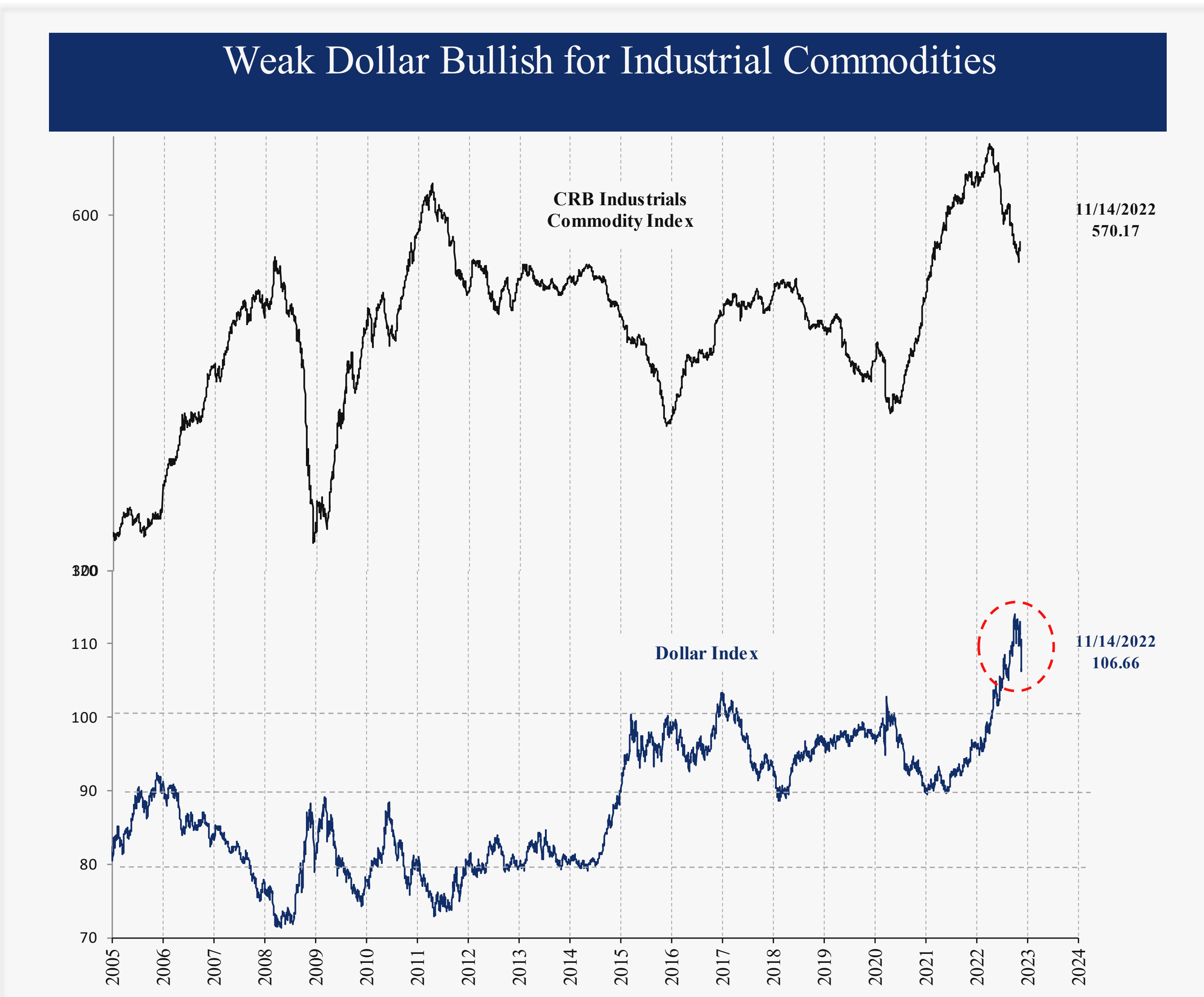
11 Years of Weak Foreign Equity Performance:
=Undervalued and Underowned



November 17, 2022

Dollar Reversal Bullish for Industrial Commodities

Industrial commodity prices have a strong negative correlation to the dollar, as well. Since 1970, the CRB Industrials Index returned 8.9% when the dollar was falling vs. -1.5% when it was rising. In periods when the dollar was falling and the Fed was hiking rates as they are today, the CRB Industrials returned 18.5%, 5x the norm since 1970. Despite a 60% rally in 2020 and 2021, after a 20% decline this year, the CRB Industrials Index is still below where it was in 2011. Commodities could also be set for a multi-year positive performance like 1975-80 (85%) or 2003-2007 when the index rallied 152%. We raised commodities to a max bullish 5 rating this month.



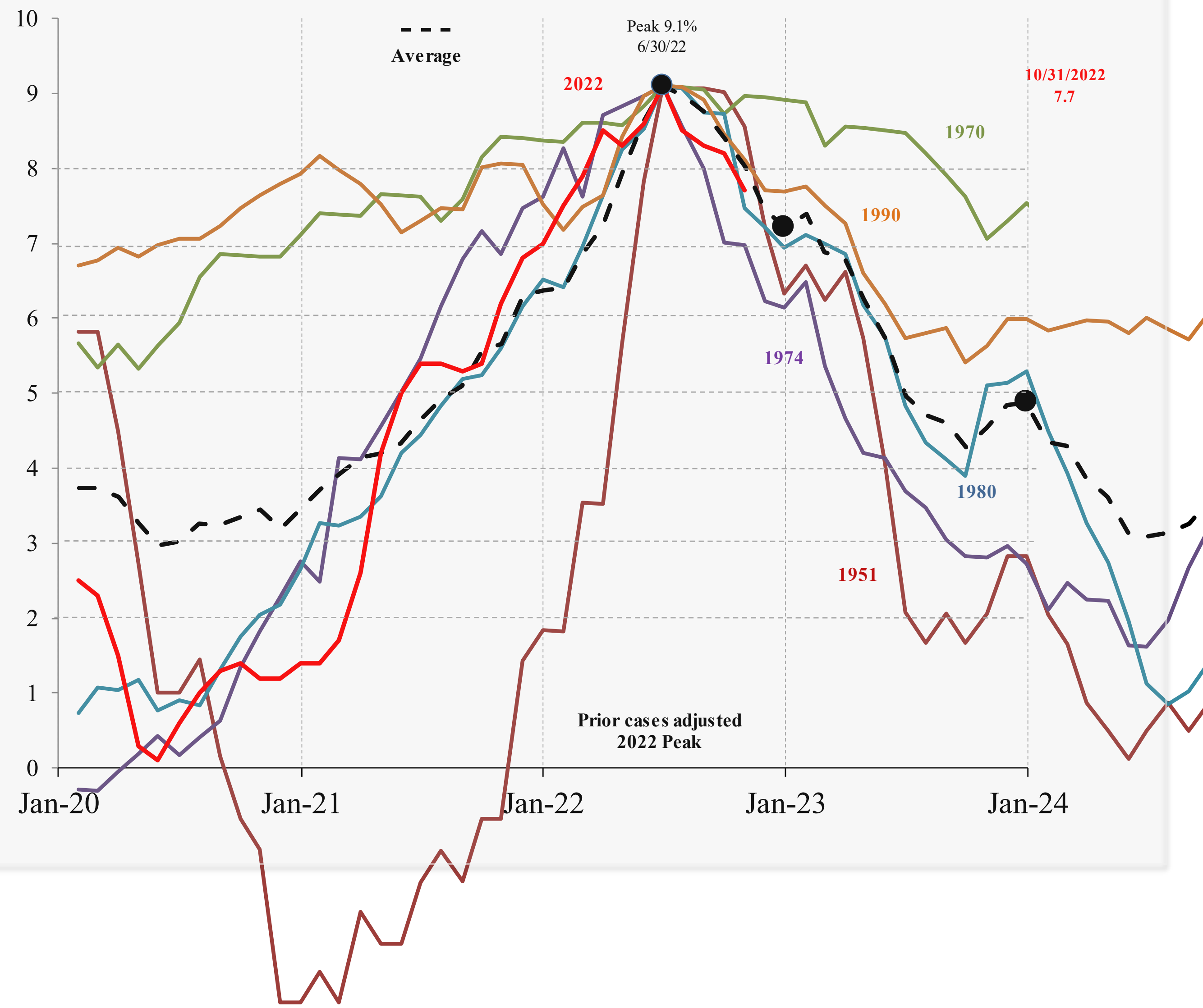
BRENTON POINT
WEALTH ADVISORS

November 17, 2022

Inflation Lower: Doom Loop Reversed

Lower inflation ahead is consensus opinion after last week's October CPI surprised to the downside. Other leading inflation indicators are pointing to the downside as well. For instance, the FAO Food Price Index slowed to just 2% Y/Y and China's October Producer Price Index was -1.3% Y/Y. Since the June CPI peak at 9.1%, inflation has followed the norm from the 5 prior inflation peaks. Also, for the next 5 months the comps from a year prior (when the supply chain bottlenecks hit) are high, making it easier for the Y/Y rate to decline. It is the convergence of the expected inflation rate and the expected Fed Funds rate that is driving the equity rally, since convergence supports a Fed hiking taper and a pause by May.

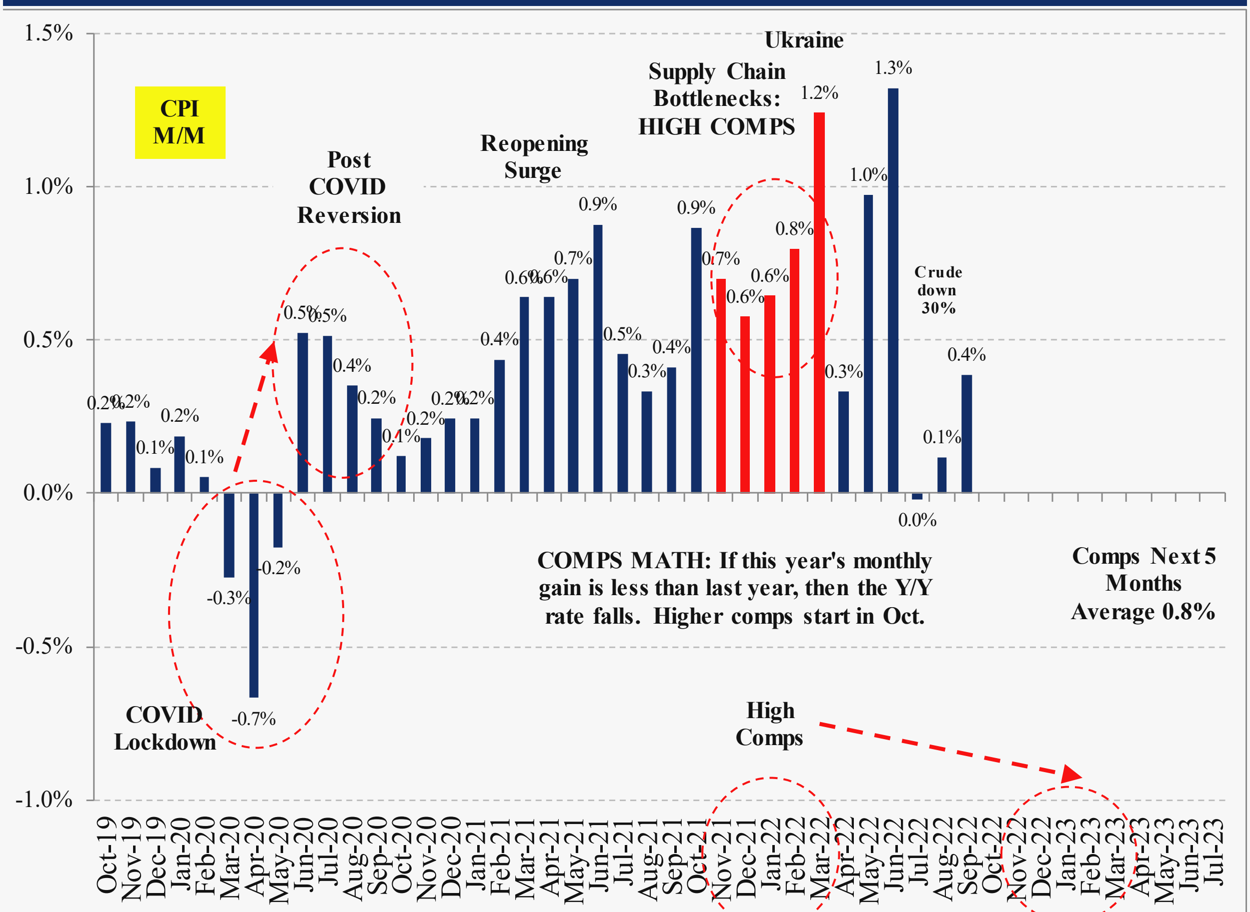
2022 CPI Decline In Line with Prior Inflation Peaks
5 Prior Cases 1951/1970/1974/1980/1990



BRENTON POINT
WEALTH ADVISORS

November 17, 2022

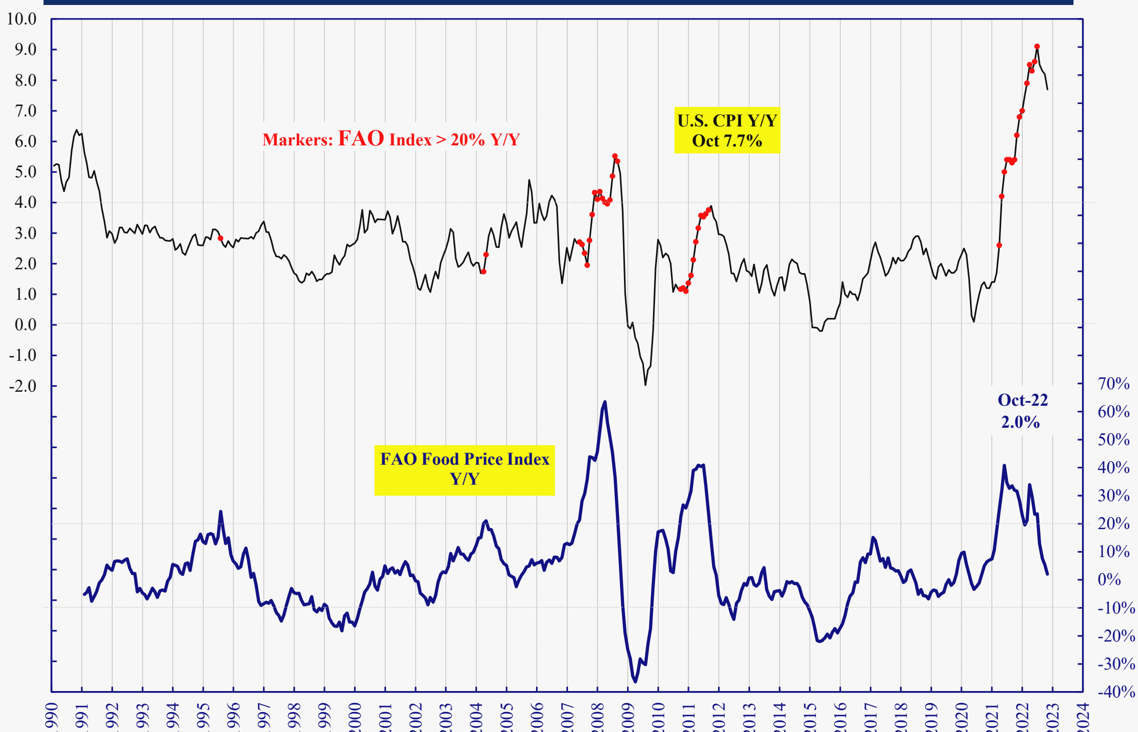
High CPI Comps next 5 Months = Lower CPI Y/Y Ahead

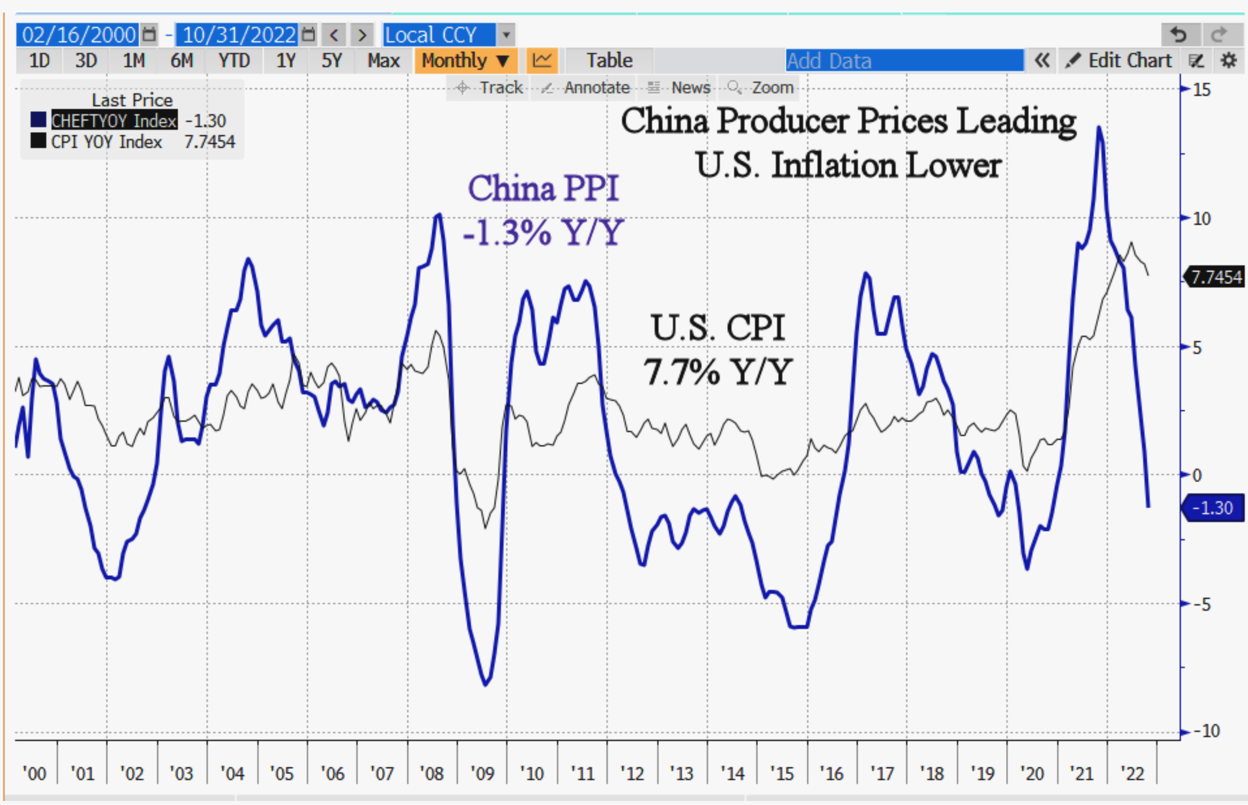


BRENTON POINT
WEALTH ADVISORS

November 17, 2022

Food Price Inflation Reversing





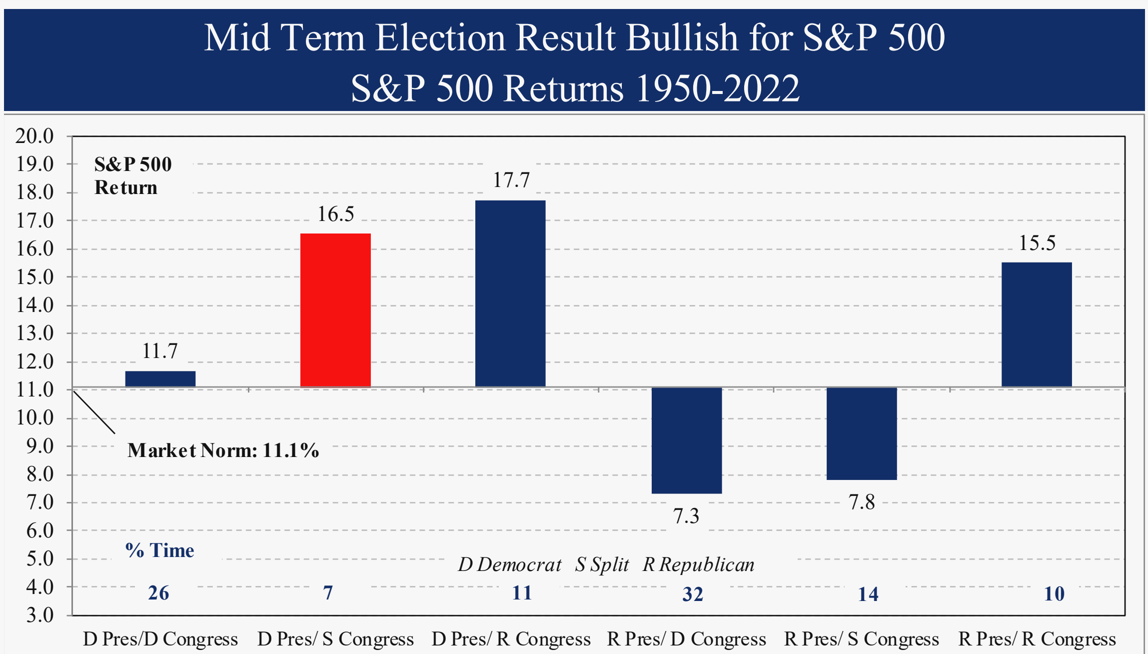
BRENTON POINT
WEALTH ADVISORS

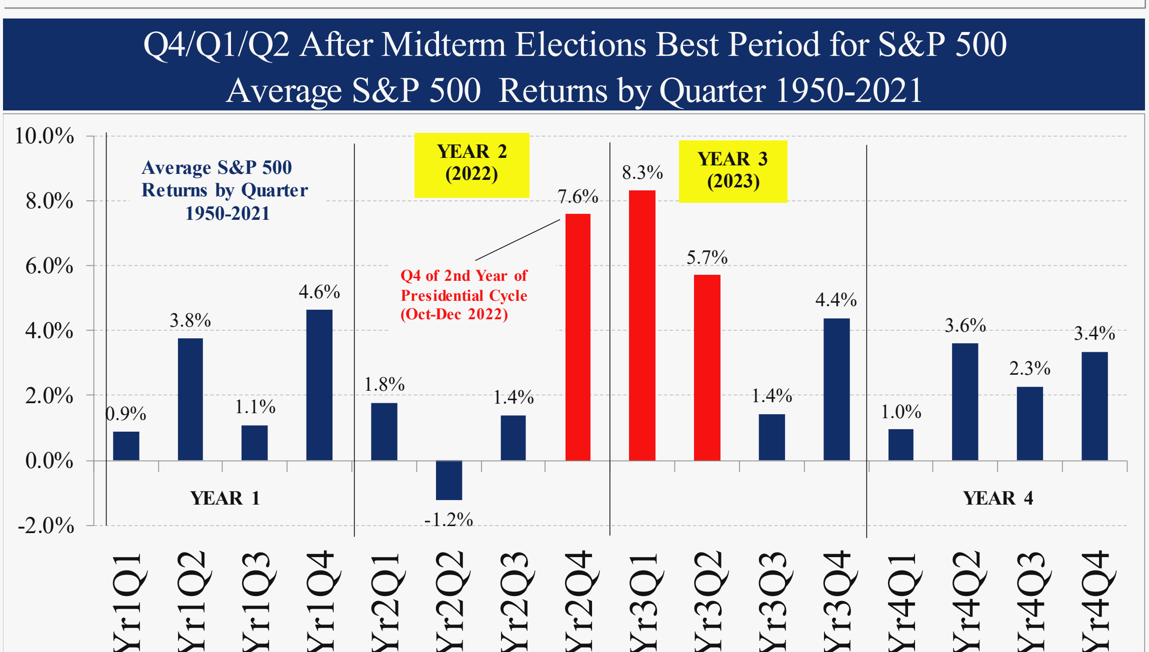
November 17, 2022

Presidential Cycle: Bullish through June

The midterm elections were potentially a positive for equities. Historically the S&P 500 returned 16.5% annualized when the president was a Democrat with a split House and Senate, the combination for the next two years. That's up from an 11.7% historical return when all three were controlled by Democrats like the last two years. The only prior years of this split combination were 2011-2014 under Obama as president with House and Senate split. Interesting that it is not gridlock itself that is bullish as is assumed, since the opposite scenario, when Republicans control the presidency and the House or Senate is split, resulted in below average S&P 500 returns.

Regardless of the political combination, the period October of the 2nd year (2022) through June of the 3rd year (2023) is the most positive of the 4-year presidential cycle. The first quarter average historically was 8.3%, the highest of any quarter.





BRENTON POINT
WEALTH ADVISORS

November 17, 2022

Summary

This month we focused on the dollar inflection point after a 2-year move higher. The implications are significant for upside potential in emerging markets, foreign-developed equities and particularly industrial commodities, due to low valuations and low investor positioning. The next big move in the dollar is unknowable, but for now the trend is down and conditions bullish for those assets. Investor consensus now sees lower inflation ahead, which means less pressure on the Fed for further hikes. With European rates below U.S. rates and inflation higher in Europe, there is a viable scenario the ECB will play catch-up, putting further pressure on the dollar. The S&P 500 14% rally in just a month is unsustainable, but conditions remain bullish and investor positioning remains below the norm for all 10 investor groups we follow, a strong wall of worry. We will continue to monitor our indicators on a daily basis for any significant change to our outlook. Thank you for your support and please contact us with any questions.

Michael Schaus
Director of Market Research