A 7.7 percent annual inflation rate is still far above the Federal Reserve's long-term target of 2.0 percent. While it's too early to tell, there were several positive pieces of evidence in today's report. First, the typically volatile energy sector was not the reason October inflation was relatively tame, as energy prices rose 1.8 percent for the month, after falling a combined 11.3 percent in the three months prior. Excluding energy, consumer prices rose an almost respectable 0.3 percent in October. Meanwhile, food prices rose 0.6 percent, the smallest monthly gain in 2022.

Stripping out these two categories show that "core" prices moderated in October, rising only 0.3 percent versus an expected gain of +0.5 percent. This pushes the year-ago comparison down to 6.3 percent (from 6.6 percent in September). Housing rents (for both actual tenants and the rental value of owner-occupied homes) continued to increase at an outsized pace, rising 0.6 percent for the month. Those are below the back-breaking pace set last month, where both categories posted their most significant monthly increases in more than thirty years. Housing rents accounted for nearly half of the overall rise in consumer prices. and are expected to continue as key drivers of inflation in 2023-24. They make up more than 30 percent of the overall CPI and still have a long way to go to catch up to home prices, which skyrocketed during COVID.

Digging into the core data shows inflation was held down by a handful of categories that declined in October, with one major caveat. That caveat came from medical care services, which fell 0.6 percent, the largest drop for that category in more than fifty years. But that was due to the way the government tracks health care prices, and adjusts them once a year (in October), based on how often people visit the doctor. This drag on overall and core inflation should not be expected to repeat in the months ahead. Other categories that declined in October were used vehicles (-2.4 percent), airline fares (-1.1 percent), and apparel (-0.7 percent).

While today's report may be a welcome sign to the markets, the Fed still has a long way to go before it can say the inflation scare is over. In other news this morning, initial unemployment claims rose by 7,000 last week to 225,000. Continuing claims rose by 6,000 to 1.493 million. These figures are meager by historical standards and suggest continued solid job growth in November.

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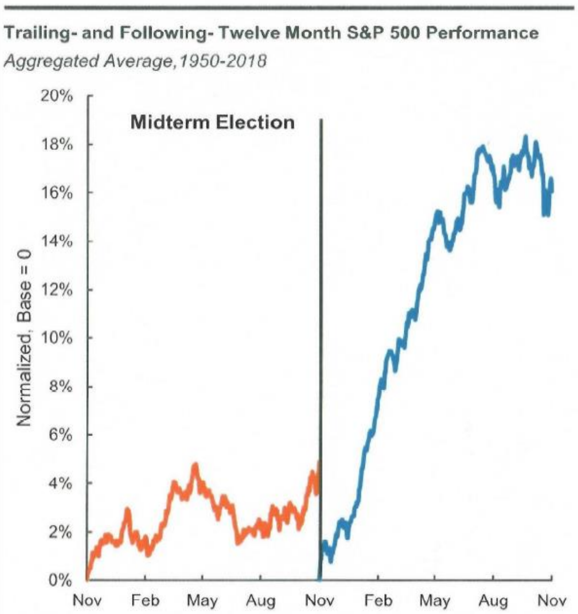
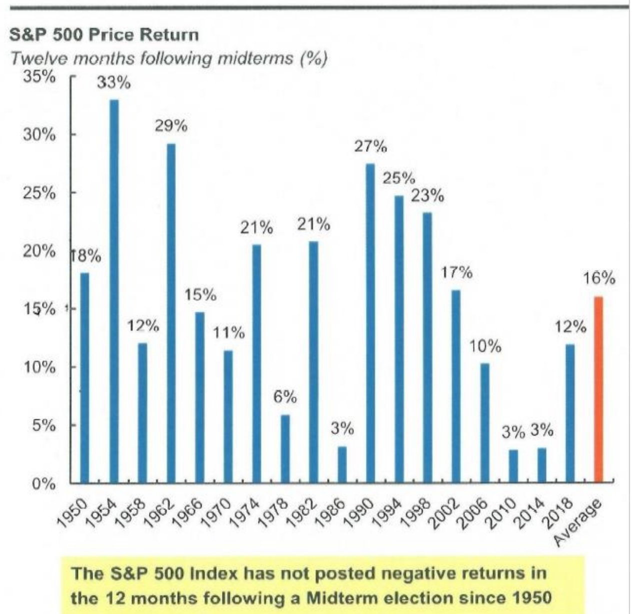
As we wait for the final votes to be counted from this week's mid-term elections, it's important to remember that despite the frequent appearance of market turmoil in election years, we have encouraging historical data to remind investors that volatility is typical. Often the following year shows a return to calmer seas.

# Midterm Election Market Performance

The S&P 500 has historically posted strong returns following a Midterm election, on average, significantly outperforming pre-midterm periods




Source: Bloomberg Finance, L.P., as of September 30, 2022. **Past performance is not a reliable indicator of future performance.** Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income as applicable.

*Sources: First Trust Advisors. This report reflects the current opinion of the authors. It is based on sources and data believed to be accurate and reliable. Opinions and forward-looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.*