

MARKET VIEW WEEKLY

July 8th, 2022



ECONOMIC REVIEW¹

- Non-farm payrolls came in much stronger than expected, adding 372,000 jobs in June, well above the expected consensus of 250,000.
 - The unemployment rate remained unchanged at 3.6% for the fourth straight month.
- The ISM Services index declined slightly to 55.3% from the previous month's reading of 55.9%, though still solidly exceeded the median forecast of 54.0%.
 - Importantly, any number over 50 for ISM Services Index signals expansionary growth.

How do Non-farm Payrolls and ISM Services Impact You?

- Employment data will continue to be crucial information to monitor for two primary reasons:
 - First, the historic strength of the labor market is arguably the most significant, underlying factor pointing to the health of the economy – a major downturn in non-farm payrolls would further stoke recession fears.
 - Second, as it pertains to the Fed's dual mandate to maintain maximum employment and stable prices, 40-year high inflation has the maximum employment piece of that mandate taking a backseat to regaining control over prices.
 - So as the Fed continues its aggressive push to return interest rates to neutral "expeditiously," expect unemployment to eventually tick up, though not materially enough to raise concerns over the health of the economy.
- ISM Non-manufacturing or Services Index measures business activity for the overall economy, considering employment, prices, and inventory levels for more than 15 industries outside of manufacturing.
 - Both current levels and consistent outpacing of expectations indicate the economy is on solid footing.



A LOOK FORWARD¹

- This week's data releases feature a critical CPI report publishing on Wednesday.
 - Markets expect the year-over-year figure to creep higher, reaching another record of 8.8%.
- Retail sales for June release on Friday – this report is an important barometer for the health of the consumer.

How do Inflation and Retail Sales Impact You?

- CPI data, while not the Fed's preferred inflation metric, is the most followed pricing index, and any information regarding inflation will have material effects on markets.
- Consumption makes up nearly 70% of U.S. GDP, and retail sales represent one of the clearest indicators on the strength of the American consumer.



MARKET UPDATE

Market Index Returns as of 7/8/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	2.0%	3.1%	-17.5%	-8.4%	11.3%	12.0%
NASDAQ	4.6%	5.5%	-25.3%	-19.5%	13.8%	14.6%
Dow Jones Industrial Average	0.8%	1.9%	-12.8%	-7.2%	7.6%	10.3%
Russell Mid-Cap	1.4%	2.9%	-19.3%	-14.1%	7.3%	8.6%
Russell 2000 (Small Cap)	2.4%	3.6%	-20.7%	-19.8%	5.6%	5.9%
MSCI EAFE (International)	1.0%	0.2%	-19.4%	-17.4%	1.1%	2.3%
MSCI Emerging Markets	0.9%	0.2%	-17.5%	-22.0%	0.8%	2.3%
Bloomberg Barclays US Agg Bond	-0.9%	-0.3%	-10.6%	-11.2%	-1.0%	0.9%
Bloomberg Barclays High Yield Corp.	1.3%	1.5%	-12.9%	-11.8%	0.6%	2.5%
Bloomberg Barclays Global Agg	-1.1%	-0.7%	-14.5%	-16.4%	-3.3%	-0.5%



OBSERVATIONS

- U.S. equities moved higher this week with the S&P 500 gaining 2.0% and the NASDAQ climbing 4.6% on the week.
- In the U.S., smaller sized companies slightly outperformed the S&P though lagged the NASDAQ. The Russell 2000 index increased 2.4% on the week.
- International stocks also improved though lagged domestic markets. MSCI EAFE gained 1.0%.
- Emerging market stocks were nearly in line with developed international – MSCI EM index climbed 0.9%.
- U.S. investment grade bonds, on the other hand, gave up some ground as the Bloomberg Barclays U.S. Aggregate Bond index declined about a percent.



BY THE NUMBERS

LOOK-BACK - As of 6/30/2022, the total return of the S&P 500 was down 10.6% for the trailing 1-year, +10.6% per year for the last 3-years, +11.3% per year for the last 5-years and +13.0% per year for the last 10-years. The S&P 500 consists of stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

DOWN TEN, AND THEN WHAT? - The S&P 500 was down 10.6% (total return) for the year ending 6/30/2022, the 40th time in the last 400 months that the index has been down at least double-digits on a trailing 1-year basis. In the previous 39 times that the index was down at least 10% (total return) for the previous 12 months, the average return for the next 12 months was a gain of +4.2% (total return) (source: BTN Research).

DOWN TWENTY, AND THEN WHAT? - The S&P 500 has been down at least 20% (total return) for the trailing year at the end of 20 months in the last 400 months, most recently as of 6/30/2009. In the 20 times that the index was down at least 20% (total return) for the previous 12 months, the average return for the next 12 months was a gain of +17.1% (total return) (source: BTN Research).

Economic Definitions

ISM Services Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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