MARKET VIEW WEEKLY

July 15th, 2022

ECONOMIC REVIEW[1]

- The June CPI report delivered yet another record inflation print showing last month's headline rate of price increases was the highest since December 1981.
    - Year-over-year Core prices increased by slightly less than they did over the previous month, however, the monthly rate of Core inflation accelerated faster than it had in May.
        - Headline CPI:
            - Annual: 9.1% (median forecast – 8.8%; previous – 8.6%)
            - Monthly: 1.3% (median forecast – 1.1%; previous – 1.0%)
        - Core CPI:
            - Annual: 5.9% (median forecast – 5.7%; previous – 6.0%)
            - Monthly: 0.7% (median forecast – 0.5%; previous – 0.6%)
    - Costs were up broadly across the economy with important expenses like shelter and food prices contributing significantly, but gasoline far outpaced other categories, increasing 11.2% since May.
        - Encouragingly, gas prices have declined sequentially in recent weeks.
- Retail sales narrowly edged out consensus expectations to rise 1.0% through June; the May sales figure was also revised up slightly.
    - Although retail sales remain positive on a nominal basis, the pace of acceleration in this metric still lags that of inflation, meaning consumers are spending more but receiving less goods and services.

How do Inflation and Retail Sales Impact You?

- A major issue once again confirmed by this CPI report – wages are not keeping up with inflation.
    - Annual wage growth sits at 5.1% (well below annual inflation of 9.1%), and adjusted average hourly earnings are declining at their fastest pace in four decades, decreasing 3.6% from June '21 to June '22.
- Despite June's report, some economists are pointing to recent developments that could subdue price pressures in the coming months.
    - Declining commodity prices on expectations of slowing economic growth, retailers warning of an inventory glut, and falling new and used car prices all point to lower prices in the future.

A LOOK FORWARD[1]

- This week features some a smattering of housing data – building permits, housing starts, and existing home sales – that could show signs of cooling demand as the Fed's tightening policy takes effect.
- The last initial and continuing jobless claims reports prior to next week's Fed meeting publish on Thursday.

How do Housing and Labor data Impact You?

- Another strong reading on the labor market coupled with the recent, historic inflation reading likely support more aggressive Fed action.

MARKET UPDATE

Market Index Returns as of 7/15/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-0.91%	2.12%	-18.27%	-10.09%	10.44%	11.43%
NASDAQ	-1.57%	3.86%	-26.50%	-20.70%	12.43%	13.70%
Dow Jones Industrial Average	-0.16%	1.71%	-12.97%	-8.82%	6.81%	10.05%
Russell Mid-Cap	-1.31%	1.54%	-20.37%	-14.84%	6.46%	8.05%
Russell 2000 (Small Cap)	-1.40%	2.17%	-21.76%	-19.40%	5.05%	5.41%
MSCI EAFE (International)	-1.75%	-1.55%	-20.81%	-19.31%	0.50%	1.50%
MSCI Emerging Markets	-3.69%	-3.54%	-20.54%	-26.70%	-0.82%	0.66%
Bloomberg Barclays US Agg Bond	0.89%	0.62%	-9.80%	-10.41%	-0.64%	0.98%
Bloomberg Barclays High Yield Corp.	0.26%	1.78%	-12.66%	-11.51%	0.70%	2.41%
Bloomberg Barclays Global Agg	0.09%	-0.57%	-14.41%	-16.31%	-3.26%	-0.69%

OBSERVATIONS

- U.S. equities retreated a bit from the previous week's gains with the S&P 500 and NASDAQ both declining, -0.91% and -1.57%, respectively.
- Domestically, smaller sized companies performed roughly in line with their larger counterparts. The Russell 2000 index dropped -1.40% on the week.
- International stocks declined, falling a bit more than domestic markets with MSCI EAFE down -1.75%.
- Emerging market stocks fared the worst of the broad equity sectors – MSCI EM index fell -3.69%.
- U.S. investment grade bonds, on the other hand, improved marginally as Bloomberg Barclays U.S. Aggregate Bond index was up +0.89% after it dropped the previous week.

BY THE NUMBERS

ONE AFTER THE OTHER - The S&P 500 was down on a total return basis in both the 1st quarter of 2022 (down 4.6%) and the 2nd quarter of 2022 (down 16.1%), off 20.0% YTD through 6/30/2022. That's the first back-to-back "down" quarters for the index since the S&P 500 suffered 6 consecutive quarterly declines from the 4th quarter of 2007 through and including the 1st quarter of 2009 (source: BTN Research).

CHANGE FROM Q.E. TO Q.T. - The Federal Reserve began a reversal of "Quantitative Easing" on 6/15/2022 with its program of "Quantitative Tightening," i.e., changing from monthly purchases of $120 billion of bonds to a monthly runoff of $95 billion of bonds. Fed analysis suggests that every $1 trillion of reduction of bonds from the Fed's $8.5 trillion balance sheet would have the same impact as a 0.20 percentage point increase in interest rates (source: Federal Reserve).

AND YOU THINK NOW IS BAD - Inflation, as measured by the "Consumer Price Index," was up +9.1% on a trailing 1-year basis as of 6/30/2022. That's the 7th consecutive month that has reported inflation of at least +7% on a trailing 1-year basis. Between June 1978 and February 1982, the US suffered 45 consecutive months that reported at least +7% inflation on a trailing 1-year basis (source: Bureau of Labor Statistics).

Economic Definitions

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

Building Permits: This concept tracks the number of permits that have been issued for new construction, additions to pre-existing structures or major renovations. These statistics are based on the number of construction permits approved.

Housing Starts: Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

Existing Home Sales: This concept tracks the sales of previously owned homes during the reference period. Total existing home sales include single-family homes, townhomes, condominiums and co-ops. All sales are based on closings from Multiple Listing Services. Foreclosed homes are only counted in the inventory if the bank is working with a realtor. Foreclosed homes that sell via auction (or other closings outside of the Multiple Listing Services) are not included.

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.

Disclosures

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[1] Data obtained from Bloomberg as of 7/15/2022

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