

MARKET VIEW WEEKLY

July 22th, 2022



ECONOMIC REVIEW¹

- June housing data revealed further softening demand across several key metrics as home builders and buyers alike struggle with the highest mortgage rates since 2008.
 - Existing home sales dropped 5.4% in June, posting a fifth consecutive, monthly decline for the first time since 2013.
 - As the number of homes sold has fallen, the median price of an existing home has risen, though at a decelerating rate since a May 2021 peak of 25.2%.
 - June 2022 prices are still up 13.4% from a year earlier.
 - 30-year mortgage rates have risen more than 200 basis points since December, sit just below 6%, and are the primary driver in declining home affordability.
- New construction plans have also been affected by falling affordability – both housing starts and new building permits declined in June, -2.0% and -0.6% respectively.
 - The details reveal new permits issued for single-family homes have declined 11.4% while those for multi-family have risen 26.0% from a year ago, demonstrating a shift in focus to apartment buildings.
 - However, the number of homes already under construction, as well as the difference between that number and the number of completions, sit at the highest level since the 1970s.
 - High current construction coupled with record levels of backlogged projects reflect ongoing supply chain issues and labor shortages impacting construction times, while also suggesting a slowdown in activity may be reasonable.

How does Housing Data Impact You?

- If a 20% down payment is assumed, rising mortgage rates and home prices have pushed up monthly payments on new mortgages for the median existing home by 56% in the last 6 months.
 - Declining affordability has pushed many potential home buyers back to the rental market.
- Homebuilder sentiment, as measured by the NAHB Housing Index, fell precipitously in the last month, dropping from a reading of 67 in June to just 55 this month.
 - Despite their souring outlook, the backlog of construction could eventually turn into a tailwind for economic growth.



A LOOK FORWARD¹

- This week the Fed holds yet another pivotal meeting in which investors expect the Board of Governors to raise interest rates another 75 basis points, bringing the Fed funds target range to 2.25-2.50%.

How does the Fed Impact You?

- Higher rates will continue to slow aggregate demand in the face of 40-year high inflation.



MARKET UPDATE

Market Index Returns as of 7/22/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	2.57%	4.73%	-16.17%	-7.95%	11.73%	11.87%
NASDAQ	3.33%	7.32%	-24.05%	-18.84%	13.91%	14.17%
Dow Jones Industrial Average	2.00%	3.74%	-11.24%	-6.60%	7.75%	10.53%
Russell Mid-Cap	3.69%	5.29%	-17.42%	-12.43%	8.11%	8.72%
Russell 2000 (Small Cap)	3.59%	5.84%	-18.96%	-16.85%	6.68%	6.05%
MSCI EAFE (International)	4.43%	2.81%	-17.31%	-15.24%	2.10%	2.29%
MSCI Emerging Markets	3.00%	-0.65%	-18.16%	-23.28%	0.25%	0.99%
Bloomberg Barclays US Agg Bond	1.17%	1.79%	-8.74%	-9.57%	-0.37%	1.11%
Bloomberg Barclays High Yield Corp.	2.48%	4.30%	-10.50%	-9.29%	1.57%	2.79%
Bloomberg Barclays Global Agg	1.55%	0.96%	-13.08%	-15.19%	-2.86%	-0.64%



OBSERVATIONS

- U.S. equities rose solidly last week with the S&P 500 Index returning +2.57%.
- Domestically, smaller sized companies outperformed their larger counterparts as the Russell 2000 index increased +3.59% on the week.
- International stocks rose even more than domestic markets with MSCI EAFE up +4.43%.
- Emerging market stocks were also positive with the MSCI EM index up +3.00%.
- U.S. investment grade bonds also performed well as Bloomberg Barclays U.S. Aggregate Bond index was up +1.17% for the week.



BY THE NUMBERS

TIME IN THE STOCK MARKET - If you selected any single month at random to invest in the S&P 500 during the 30-years ending 6/30/2022, you achieved a positive total return 67% of the time. If you extend your investment time horizon to just 1 year, you achieved a positive total return 83% of the time. If your time horizon was 5 years, you achieved a positive total return 84% of the time. The S&P 500 consists of 500 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).

TIME TO BUY MAY BE NOW - Of the 10 major US cities where the housing market is "cooling off" the quickest, 6 cities are in California. The San Jose market tops this analysis based on price drops and the length of time that a listing is staying on the market. Sacramento and Oakland are ranked # 2 and # 3 (source: Redfin).

PAY YOUR MORTGAGE - Lenders repossessed 20,750 properties during the first 6 months of 2022, up +113% from 9,739 repossessions in the first half of 2021. Just 5 years ago (2017), 169,124 properties were repossessed in the first half of the year (source: ATTOM Data Solutions).

Economic Definitions

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.

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¹ Data obtained from Bloomberg as of 7/22/2022



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