

MARKET VIEW WEEKLY

July 29th, 2022



ECONOMIC REVIEW¹

- The personal consumption expenditures (PCE) price index rose 6.8% in June, the biggest 12-month move since the 6.9% increase in January 1982.
 - The index rose 1.0% from May, tying its biggest monthly gain since February 1981.
 - Excluding food and energy, core PCE increased 4.8% from a year ago, up one-tenth of a percentage point from May but off the recent high of 5.3% hit in February.
 - On a monthly basis, core was up 0.6%, its biggest monthly gain since April 2021.
- The Conference Board Consumer Confidence Index for July slipped to 95.7 from June's revised reading of 98.4, which was adjusted downward by 0.3 points.
 - It's the lowest index reading since February 2021, when levels were 95.2.
 - It's the third consecutive month that the index fell.
- Gross domestic product (GDP) fell -0.9% at an annualized pace for the second quarter.
 - That follows a -1.6% decline in the first quarter.
 - Two quarters of negative GDP growth is considered a recession in definitional terms.

How does inflation, consumer confidence and GDP impact you?

- Core inflation is a better predictor of inflation going forward, headline inflation tends to be volatile. So, in ordinary times, you look past volatile moves in commodities. However, still high inflation readings likely mean another Fed rate hike in September.
- Confidence fell due to recessionary concerns. However, think about what a recession is. It's a broad-based decline across many industries that sustains for more than a couple of months. This doesn't seem like that now!
- Looking past the negative headline reading on GDP, consumer spending, the main driver of the US economy, accelerated during the second quarter.
 - Consumer spending increased just 1.0% for the second quarter even as inflation accelerated.



A LOOK FORWARD¹

- This week we will receive ISM Manufacturing and Services readings as well as the labor market report.

How does ISM Readings and the Labor Market report impact you?

- ISM indexes are expected to remain in expansionary territory.
- The labor market report is expected to show 250,000 new jobs added to the economy for the month of July, with the unemployment rate remaining steady at 3.6%.
 - None of the data is expected mark concern over any further economic slowdown.



MARKET UPDATE

Market Index Returns as of 7/29/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	4.28%	9.22%	-12.58%	-5.15%	12.85%	12.81%
NASDAQ	4.72%	12.39%	-20.47%	-15.56%	15.26%	15.27%
Dow Jones Industrial Average	2.97%	6.82%	-8.60%	-4.54%	8.74%	10.92%
Russell Mid-Cap	4.35%	9.87%	-13.83%	-10.17%	9.19%	9.69%
Russell 2000 (Small Cap)	4.35%	10.44%	-15.43%	-14.82%	7.64%	7.06%
MSCI EAFE (International)	2.11%	4.98%	-15.56%	-15.08%	2.86%	2.67%
MSCI Emerging Markets	0.41%	-0.25%	-17.83%	-21.17%	0.62%	1.02%
Bloomberg Barclays US Agg Bond	0.64%	2.44%	-8.16%	-8.98%	-0.17%	1.28%
Bloomberg Barclays High Yield Corp.	1.53%	5.90%	-9.12%	-8.00%	1.94%	3.06%
Bloomberg Barclays Global Agg	1.15%	2.13%	-12.08%	-14.60%	-2.38%	-0.43%



OBSERVATIONS

- U.S. equities rose solidly last week with the S&P 500 Index returning +4.28%.
- Domestically, smaller sized companies outperformed their larger counterparts as the Russell 2000 index increased +4.35% on the week.
- International stocks rose, but less than domestic markets with MSCI EAFE up +2.11%.
- Emerging market stocks were also positive with the MSCI EM index up +0.41%.
- U.S. investment grade bonds also performed well as Bloomberg Barclays U.S. Aggregate Bond index was up +0.64% for the week.



BY THE NUMBERS

DOWNGRADE – This Friday (8/05/2022) is the 11th anniversary of the day S&P downgraded the USA on 8/05/2011 from the top-rating that America had held for 70 years. The yield on the 10-year T-note was 2.57% on 8/05/2011. The yield on the 10-year T-note closed at 2.64% on Friday 7/29/2022 (source: Treasury Department).

HOME SELLING - When the pandemic started (January 2020), the median sales price of existing homes sold in the USA was \$266,300. In June 2022, the median sales price of existing homes sold in the USA reached a record \$416,000 (source: National Association of Realtors).

THIS WILL CHANGE IN THE FUTURE - 91% of the 128 million households in the USA own at least 1 car, SUV or light-duty truck, a total of 250 million vehicles. Surprisingly, electric cars and trucks make up just 2 million of the 250 million vehicles in our country today (source: Census Bureau).

SAVING FOR THE WINTER - The 27-nation European Union announced on 7/26/2022 that all member countries are to reduce their natural gas consumption by 15% over the 8 months that begin today, i.e., 8/01/2022 through 3/31/2023. The EU is concerned that Russian-supplied natural gas could end with little notice (source: EU).

Economic Definitions

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.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

ISM Manufacturing 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.

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. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Where as per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

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.

Conference Board Leading Economic Index: Leading indicators include economic variables that tend to move before changes in the overall economy. These indicators give a sense of the future state of an economy.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

Conference Board Consumer Confidence Index: The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. Data are data available by age, income, region and top 8 states.

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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