

# MARKET VIEW WEEKLY

August 12<sup>th</sup>, 2022



## ECONOMIC REVIEW<sup>1</sup>

- The Consumer Price Index (CPI) increased below expectations as the headline number experienced no change at all on a month-over-month basis.
  - On a year-over-year basis, the index came in at 8.5% compared to the expectation of 8.7%. The core reading came in at 5.9%.
  - The majority of the drop in the headline reading can be attributed to the sharp drop in gas prices, as the national average dropped below \$4.00 a gallon for the first time in over a month.
  - Similarly, airline fees and hotel fares plunged -7.8% and -3.2% respectively.
  - One area of CPI that remains stubbornly high is OER (owner's equivalent rents) which makes up nearly one third of core CPI. OER increased 0.6% for the month of July and tends to be a stickier inflationary pressure.
- The Producer Price Index (PPI) readings were also released last week.
  - The headline reading decreased -0.5% on a month-over-month basis
  - The core reading came in lower than expectations increasing by 0.2% on a month-over-month basis.
  - Headline producer prices are up 9.8% on a year-over-year basis, while core prices have increased 7.6% on a year-over-year basis.
    - The PPI report more or less mirrored the CPI report as most of the softening came from the decline in energy prices.

### How does Inflation Impact You?

- The Fed has prioritized taming inflation moving forward, even at the risk of slowing the economy. The committee is looking for a sustained downward trend in inflationary measures. The data over the last week does look promising and we do believe inflation has peaked. We recommend moving with caution as this is only one point of data but would note that this is the first time since April 2020 PPI showed a decrease in prices, breaking a streak of nearly 30 months. If this trend continues, markets could continue to push higher.



## A LOOK FORWARD<sup>1</sup>

- Multiple housing data measures release this week with permits and housing starts expected to decrease 3.3% and 2.0%, respectively, for the month of July.

### How does Housing Impact you?

- The Fed has tried to influence inflation through the housing market, attempting to reduce prices and cooling the tremendous demand for housing which has increased sharply since the onset of the pandemic. The housing market likely needs to be more materially impacted, which we expect in the near- to medium-term as interest rates track higher and elevated inflation chisels away consumer purchasing power, both broadly reducing home affordability in the process.



# MARKET UPDATE

Market Index Returns as of 8/12/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	3.31%	13.27%	-9.34%	-2.61%	15.97%	13.90%
NASDAQ	3.10%	18.40%	-16.21%	-11.31%	19.35%	16.90%
Dow Jones Industrial Average	2.99%	9.89%	-5.98%	-3.02%	11.53%	11.49%
Russell Mid-Cap	4.19%	15.26%	-9.60%	-6.73%	12.69%	11.27%
Russell 2000 (Small Cap)	4.97%	18.21%	-9.48%	-9.03%	11.89%	9.37%
MSCI EAFE (International)	2.16%	6.56%	-14.29%	-14.66%	4.72%	3.11%
MSCI Emerging Markets	1.65%	2.37%	-15.67%	-18.88%	3.88%	1.91%
Bloomberg Barclays US Agg Bond	0.24%	1.63%	-8.89%	-9.23%	-1.06%	1.03%
Bloomberg Barclays High Yield Corp.	0.94%	7.60%	-7.67%	-6.17%	2.73%	3.53%
Bloomberg Barclays Global Agg	0.42%	1.66%	-12.49%	-14.39%	-3.16%	-0.67%



## OBSERVATIONS

- U.S. equities were positive, with the S&P 500 Index up +3.31%
- Domestically, smaller sized companies outperformed their larger counterparts as the Russell 2000 index increased +4.97% on the week.
- International stocks also increased but underperformed domestic stocks with MSCI EAFE up +2.16%.
- Emerging market stocks were positive with the MSCI EM index up +1.65%.
- U.S. investment grade bonds were positive as Bloomberg Barclays U.S. Aggregate Bond index was up +0.24% for the week.



## BY THE NUMBERS

**STARTED OFF REALLY BIG** - The legislative journey of the “Inflation Reduction Act of 2022” (IRA) started with Bernie Sanders (I-VT). In June 2021, Sanders pushed for a 10-year social spending package projected to include \$6 trillion of outlays over a decade-long period. His proposal followed the American Rescue Plan Act (HR # 1319), a \$1.9 trillion spending bill signed into law by President Biden on 3/11/2021 (source: Congress).

**CLIMATE** - IRA injects \$369 billion over the next decade into climate and energy programs, spending that is forecasted to reduce US greenhouse gas emissions by 42% below our 2005 levels by 2030 (source: Senate).

**EV** - IRA includes a \$7,500 tax credit for the purchase of a new electric vehicle (EV) and a \$4,000 credit for the purchase of a used EV. The credits are limited to purchases of cars costing no more than \$55,000 and trucks maxed out at \$80,000, and the batteries must contain minerals from a short list of countries (source: Senate).

**REDUCED IN SIZE** - Within 2 months (by August 2021), the original \$6 trillion spending idea was trimmed to \$3.5 trillion and was called the “Build Back Better Act” (BBB). The 2,465 page bill would impact federal income taxes, education, social welfare, climate change and foreign policy (source: Congress).

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## Economic Definitions

**Producer Prices - PPI (headline and core):** Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

**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.

**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.

## 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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<sup>1</sup> Data obtained from Bloomberg as of 8/12/2022



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