

MARKET VIEW WEEKLY

August 5th, 2022



ECONOMIC REVIEW¹

- ISM services index increased to 56.7 in July, which was well above the expected print of 53.5.
 - Any number above 50 signals expansions.
 - Looking deeper into the report, supplier deliveries dropped sharply and sits at the lowest level since 2021, signaling bottleneck are easing.
 - While the price index remains elevated, it had its largest monthly decline in five years! But 16 of the 18 industries did report paying higher prices in July.
- The jobs market once again had a tremendous month, adding 528,000 jobs well above the estimate of 250,000.
 - The labor market continues to shrug off any recession fears the market may have. The unemployment rate dipped down to 3.5%, and the number of temporary workers increased slightly.
 - The labor force participation ratio did fall slightly to 62.1%, however, the participation rate of those ages 25-54 increased to 82.4%.
 - Wages continue grow at a faster pace, increasing 0.5% for the month and 5.2% since last year.

How does ISM Services and Non-Farm Payrolls Impact You?

- It is the opinion of many economists that the service sector is going to continue to support the economy through this slowdown in economic growth.
 - It is a welcome sign the price index is decreasing sharply, as any decreases in input costs may reach the consumer in the form of lower prices on goods and materials.
- Perhaps the best piece of news from the report was that temp jobs, often staffed through agencies, also increased, which is a good sign that these workers, who tend to be the first let go during budget cuts, are still in demand. This tells us that near term recessionary fears may be overblown.



A LOOK FORWARD¹

- The Consumer Price Index (CPI) is expected to come in at 8.7% on a year-over-year basis for the month of July, down from last month's reading of 9.1%.
- The Producer Price Index (PPI) is expected to come in at 10.4% on a year-over-year basis for the month of July, down from last month's reading of 11.3%

How does Inflation Impact you?

- Fed governors continue to state that taming inflation is their chief concern, even at the risk of slowing the economy. Most governors want to see sustained decelerating inflation, that means a trend needs to form, not just one month of decreasing prices. Hopefully, that trend begins when we receive the July readings as gas prices have dropped heavily over the last few weeks which can help ease headline price pressures.



MARKET UPDATE

Market Index Returns as of 8/5/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	0.39%	9.64%	-12.24%	-5.01%	15.27%	12.85%
NASDAQ	2.18%	14.84%	-18.73%	-14.40%	18.86%	15.85%
Dow Jones Industrial Average	-0.11%	6.69%	-8.71%	-4.60%	10.77%	10.63%
Russell Mid-Cap	0.69%	10.63%	-13.24%	-9.83%	11.63%	9.93%
Russell 2000 (Small Cap)	1.96%	12.61%	-13.77%	-13.00%	10.28%	7.73%
MSCI EAFE (International)	-0.65%	4.30%	-16.11%	-16.24%	4.12%	2.36%
MSCI Emerging Markets	0.96%	0.72%	-17.04%	-20.72%	3.38%	1.12%
Bloomberg Barclays US Agg Bond	-1.04%	1.38%	-9.11%	-10.08%	-0.96%	1.03%
Bloomberg Barclays High Yield Corp.	0.66%	6.60%	-8.53%	-7.24%	2.52%	3.18%
Bloomberg Barclays Global Agg	-0.87%	1.24%	-12.85%	-15.48%	-3.11%	-0.64%



OBSERVATIONS

- U.S. equities were mixed, but the S&P 500 Index was up +0.39%
- Domestically, smaller sized companies outperformed their larger counterparts as the Russell 2000 index increased +1.96% on the week.
- International stocks fell with MSCI EAFE down -0.65%.
- Emerging market stocks were positive with the MSCI EM index up +0.96%.
- U.S. investment grade bonds were negative as Bloomberg Barclays U.S. Aggregate Bond index was down -1.04% for the week.



BY THE NUMBERS

MISS A LITTLE, MISS A LOT - Over the last 30 years, i.e., 8/01/1992 to 7/31/2022, the S&P 500 gained +10.0% per year (total return). If you remove the best 22 trading days over the entire 3 decades, i.e., 22 trading days out of 7,554 trading days, the return for the S&P 500 drops in half to +5.0% per year (total return). 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).

DOWN BUT STILL UP - The cost of shipping a 40-foot container from China to the west coast of the USA has gone from \$2,500 (June 2020) to \$20,000 (September 2021) to \$9,500 (June 2022) (source: Freightos).

FINALLY, SOME INFLATION - Over the decade from 7/01/2011 to 6/30/2021, US export prices (i.e., all commodities including agricultural products) rose just +4.6% (in total, not per year). Over the 1-year from 7/01/2021 to 6/30/2022, US export prices rose +18.2% (source: Bureau of Labor Statistics).

THE DOLLAR RULES - 40% of the world's imports and exports are invoiced in US dollars (source: Patterns in Invoicing Currency in Global Trade).

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 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.

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.

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 8/5/2022



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