AUGUST 29, 2022

Weekly Market Update

General Market News

- Although August is an off month for Federal Open Market Committee (FOMC) meetings, Federal Reserve (Fed) Chair Jerome Powell still had an opportunity to provide forward guidance and steer the markets through his much-anticipated appearance at the annual Economic Symposium in Jackson Hole, WY last week. Powell took a strongly hawkish tone; he made it clear that more rate hikes are coming and fighting inflation is his top priority despite the pain that many households will likely experience as a result. This comes as the Chicago Fed's National Financial Conditions Index (NFCI) pointed to loosening economic conditions in most of July and August, which is a trend the Fed is eager to put into reverse—especially after already hiking rates by a historic 75 basis points (bps) at the past two FOMC meetings. From here, markets will look toward the Fed's September meeting for the next rate hike and additional economic guidance as we near the final quarter of 2022. U.S. Treasury yields were up across the curve last week. The 2-year, 5-year, 10-year, and 30-year rose 9 bps (to 3.38 percent), 8 bps (to 3.19 percent), 11 bps (to 3.07 percent), and 8 bps (to 3.28 percent), respectively.

- Equity markets sold off heavily last week as the Fed took center stage at the Jackson Hole retreat. Most of the selloff came on Friday following Powell's comments regarding rate hikes to push inflation toward the Fed's long-term target of two percent over the economic cycle. While this move was expected, the Chairman's live press conference surprised many investors. As a result, several sectors, including technology, consumer discretionary, and industrials, reversed course despite performing well during the recent rally. Sectors that held up better were those that benefit from sustained inflation, such as energy, materials, utilities, and real estate. Future employment reports and inflation reports will be closely monitored as the Fed continues to drive demand back down to hit its target.

- On Wednesday, the preliminary July durable goods orders report was released. Headline durable goods orders growth came in below expectations, with the report showing that orders were unchanged against calls for a 0.8 percent increase. This miss was due to a slowdown in volatile transportation orders during the month. Core durable goods orders, which strip out the impact of transportation, increased 0.3 percent against calls for a 0.2 percent rise. Core durable goods orders are often viewed as a proxy for business investment, so this solid result signaled continued business spending.

- On Friday, the personal income and personal spending reports for July were released. Personal income increased 0.2 percent against calls for a 0.6 percent increase. This was the 10th consecutive month with income growth, and, though the increase in July came in below expectations, this was still a positive result. Spending also failed to meet expectations, with the report showing a 0.1 percent increase against calls for a 0.5 percent rise. This follows a 1 percent rise in spending in June and marks seven consecutive months with increased spending. Overall, these reports showed that consumers were still willing and able to spend during the month, which was a good sign for overall economic growth.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–4.02	–1.62	–14.00	–8.67
Nasdaq Composite	–4.43	–1.91	–21.99	–19.16
DJIA	–4.20	–1.49	–9.97	–7.14
MSCI EAFE	–1.91	–2.61	–17.77	–17.75
MSCI Emerging Markets	0.54	1.66	–16.46	–18.59
Russell 2000	–2.93	0.88	–14.69	–15.54

Source: Bloomberg, as of August 19, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–2.03	–10.02	–10.78
U.S. Treasury	–1.88	–9.43	–10.25
U.S. Mortgages	–2.62	–8.32	–8.98
Municipal Bond	–1.87	–8.32	–8.29

Source: Morningstar Direct, as of August 19, 2022

What to Look Forward To

On Tuesday, the Conference Board Consumer Confidence Index for August is set to be released. Economists expect confidence to increase modestly during the month, with the index set to rise from 95.7 in July to 97.4. If estimates hold, this would end a streak of three consecutive months with declining confidence. Despite the anticipated improvement for the index, it is expected to remain well below the pandemic-era high of 128.9 from June 2021. It's likely we'll need to see a continued slowdown in inflationary pressure before the index can recover to recent highs.

Friday will see the release of the August employment report. Economists expect to see that 300,000 jobs were added during the month after beating expectations in July with 528,000 jobs added. If estimates hold, this would represent a strong month of job growth on a historical basis and could support Fed plans for tighter monetary policy at the central bank's September 21 meeting. The underlying data is expected to show signs of a strong labor market; the unemployment rate is set to remain unchanged at 3.5 percent, while average hourly earnings growth is expected to slow modestly.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev. 08/22.

Authored by the Investment Research team at Commonwealth Financial Network.