

MARKET VIEW WEEKLY

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ECONOMIC REVIEW¹

- Retail sales were unchanged in July, coming in just below the consensus expected gain of 0.1%, although the measure stands up 10.3% from a year ago.
 - “Core” sales, which exclude the volatile categories of autos, building materials, and gas stations actually rose 0.6% over the month, were revised up for previous months, and are up 9.3% in the last year, 28.6% since February 2020, pre-pandemic.
 - The fact of that matter is much of the rise in retail sales has been due to inflation – consumers are spending more, but taking home fewer goods at higher prices, as well.
 - “Real” or inflation-adjusted retail sales are still up marginally, though with CPI up 8.5%, much more modestly than the 10.3% nominal sales number would imply.
 - Real spending on services is still rising as consumers shift spending away from goods.
- A number of housing market measures also released last week generally showing the continued effects of declining affordability with current mortgage rates hovering around 5.5%, despite appearing to have peaked in June.
 - Existing home sales fell 5.9% last month, below the consensus expectation, posting a sixth straight monthly decline – the longest such streak since 2013.
 - Housing starts and building permits also declined through July, but permits did beat consensus.
 - The median price of an existing home did decline to \$403,800, demonstrating the early impact of tightening monetary policy, though are still up 10.8% from a year ago.

How do Retail sales & Housing data Impact You?

- Both of these areas are showing signs that inflation is impacting the consumer, though significant demand facilitated by an extended period of loose monetary policy and pandemic-related fiscal stimulus still exists.
 - Investors should expect continued marginal gains in retail sales, but “real” sales will likely struggle to keep pace with inflation.



A LOOK FORWARD¹

- Numerous key manufacturing metrics including durable goods and core capital equipment orders release this week, along with the Fed’s preferred measure of inflation, Core PCE.

How does Manufacturing & PCE Impact you?

- Should Core PCE confirm the suspected peak and subsequent downturn in CPI inflation seen earlier this month, market participants could take that as a positive sign that monetary tightening is having the desired effect and the Fed could pause or pivot in the relatively near future.
 - While this would be great news for markets, the Fed will likely stay more hawkish than exuberant investors currently expect.



MARKET UPDATE

Market Index Returns as of 8/19/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-1.16%	11.95%	-10.39%	-2.58%	14.96%	13.77%
NASDAQ	-2.58%	15.34%	-18.37%	-11.99%	17.60%	16.43%
Dow Jones Industrial Average	-0.05%	9.84%	-6.02%	-1.46%	11.14%	11.65%
Russell Mid-Cap	-2.13%	12.81%	-11.53%	-6.30%	11.50%	10.93%
Russell 2000 (Small Cap)	-2.90%	14.77%	-12.11%	-7.08%	10.42%	8.98%
MSCI EAFE (International)	-2.19%	4.23%	-16.17%	-14.66%	4.10%	2.64%
MSCI Emerging Markets	-1.48%	0.86%	-16.91%	-16.36%	3.23%	1.28%
Bloomberg Barclays US Agg Bond	-0.89%	0.73%	-9.70%	-10.53%	-1.41%	0.84%
Bloomberg Barclays High Yield Corp.	-1.21%	6.30%	-8.78%	-7.24%	2.27%	3.28%
Bloomberg Barclays Global Agg	-1.92%	-0.29%	-14.17%	-16.13%	-3.75%	-1.05%



OBSERVATIONS

- U.S. equities were negative on the week with the S&P 500 Index down -1.16%.
- Domestically, smaller sized companies underperformed their larger counterparts as the Russell 2000 index declined -2.90%.
- International stocks underperformed domestic stocks with MSCI EAFE down -2.19%.
- Emerging market stocks were better than developed with the MSCI EM index down -1.48%.
- U.S. bonds were negative as Bloomberg Barclays U.S. Aggregate Bond index was down -0.89% for the week.



BY THE NUMBERS

WE DON'T TRUST THEM - 63% of 2,005 registered voters surveyed in January 2022 support a complete ban on stock trading for all members of Congress (source: Morning Consult – Politico).

FED ACTION - As of Friday 8/19/2022 at noon ET, the bond market was priced to reflect a 54.5% chance that the Fed will raise short-term interest rates by 0.50 percentage points on 9/21/2022, and a 45.5% chance that the Fed will raise short-term interest rates by 0.75 percentage points on 9/21/2022 (source: CME Group).

SOME OWE NOTHING - Total household debt in the United States reached a record \$16.15 trillion as of 6/30/2022. 70.5% of the total is mortgage debt of \$11.39 trillion, also an all-time record. However, an estimated 23% of all US households are debt-free (source: Federal Reserve Bank of New York).

WHY SO DIFFERENT TODAY? - The number of job openings in the United States was 10.698 million as of June 2022, off from an all-time peak of 11.855 million in March 2022. A decade ago (June 2012), the number of job openings in the United States was 3.911 million (source: Bureau of Labor Statistics).

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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).

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.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

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 8/19/2022