JOHLFS financial group

MARKET WATCH UPDATE

Market Index	Close	Week	Y-T-D
DJIA	31,318.44	-2.99%	-13.81%
NASDAQ	11,630.86	-4.21%	-25.66%
MSCI-EAFE	1,790.17	-4.90%	-23.37%
S&P 500	3,924.26	-3.29%	-17.66%

TODAY'S TOPICS

- Market Update
- End of Year Market Seasonality Dynamics (Chart)
- Test Your Knowledge Trivia Question
- Key Market Levels
- What we are Watching

MARKET UPDATE

Equities and bonds are mixed Tuesday to begin a holiday shortened week, hovering near 6-week lows on news that the Fed will likely have to remain aggressive-for-longer than expected on interest rates.

The major US stock indexes fell for a third straight week on Friday, with the Dow posting a -3% decline on the week, the S&P 500 declining more than -3% and the Nasdaq falling -4.2%.

Since the recent mid-August high, the S&P 500 is down -9%, and it is now only 7% away from retesting its June low.

The 2-year Treasury yield is up to 3.5%, near its recent multi year high. When the 2-yr yield rises, it signifies a higher probability that the Fed remains aggressive in lifting rates. Meanwhile the 10-yr Treasury yield is back up at 3.33%, rising towards its June 2022 highs of almost 3.5%.

The markets are in a weird and rare dynamic where good economic data in today's environment is actually not great for the bond and equity markets. The reason being is that stellar economic news is generally considered inflationary, and inflationary generally means higher rates for longer from the Fed. For example, a stronger than expected jobs report likely means continued upward pressure on wage inflation, which translates into continued higher rates.

Stocks and bonds generally prefer lower interest rates which are more stimulative for companies, and the only way to achieve lower rates is through economic data that is okay but not great. On the flipside we don't want economic data that is too weak either, which in turn could indicate the start of a recession. This tricky scenario translates into the "soft landing" dynamic the Fed is trying to navigate here. While hard, its not impossible.

SEASONALITY DYNAMICS

As we discussed a few weeks ago, August and September are on average the weakest months of the year for the stock market, while October, November, and December are the best months of the year for stocks (**see chart below**). These dynamics are typically amplified during Midterm election years like this one on both the downside and upside months (**see green bars in chart below**).

The average midterm year gains for the S&P 500 over the final three months are 2.7%, 2.6%, and 1.2%, with gains 72%, 78%, and 67% of the time.

According to LPL Financial, *"stocks could likely hang in there for the next 24 days in September and then stage a strong fourth quarter rally. Based on history, that seems like a reasonable expectation".*

LPL notes however, "we do recognize that in the very short term the market's direction will likely depend on when the Fed signals its rate hiking campaign will slow. We likely have to wait at least another month for that and probably more."

TEST YOUR MONEY KNOWLEDGE

1. Which of the following organizations insures you against your losses in the stock market?

A) FDIC (Federal Deposit Insurance Corporation)
B) FINRA (Financial Industry Regulatory Authority)
C) SEC (Securities and Exchange Commission)
D) SIPC (Securities Investor Protection Corporation)
E) None of the above

2. You want to buy stock in a large cap company. What could you look at to make sure the company is large cap?

A) Its market capitalization
B) Its bottom line
C) Its 52 day moving average
D) Its market share

WHAT WE ARE WATCHING

The following economic data is slated to be released during the week ahead:

Monday: Markets closed for Labor Day holiday

Tuesday: ISM Services Index (Aug.)

Wednesday: ---

Thursday: Initial jobless claims, Fed Chair Jerome Powell speaks

Friday: ---

MARKET SUPPORT

The key level of resistance to watch for the S&P 500 is at around **3,666.**

Recall these are key technical levels we look for the market to either hold or push through when look at the potential for future moves. Common support levels can be the 50- and 200-day moving averages as well as other technical levels such as previous market highs or lows.

Trivia Answers

1. **Answer is E**

When you invest in stocks, you accept the risk that your investment may decline as well as rise in value. A primary role of securities regulators such as FINRA and the SEC is to ensure that securities laws and regulations are followed and to punish violators. The FDIC generally insures checking, savings and other deposit accounts when an FDIC-regulated bank fails.

2. **Answer is A**

All the other options measure different aspects of the company, but will not tell you whether it's a large cap.

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