JUNE 27, 2022

Weekly Market Update

General Market News

- After the Federal Open Market Committee (FOMC) raised the federal funds rate 75 basis points (bps) at its June meeting, Federal Reserve (Fed) Chair Jerome Powell testified to Congress on the state and development of the U.S. economy. The conversation focused on what tradeoffs the Fed is willing to make and how it would plan to act if fears of stagflation—in which the economy would see negative growth, heightened unemployment, and elevated inflation—came to fruition. Powell reiterated his primary goal of tackling inflation and expressed apprehension related to easing up on rate hikes. "We can't fail on this. We really have to get inflation down," Powell said. "In that hypothetical situation, that would be a setting in which inflation could be expected to come down," he explained, referencing that inflation is a lagging indicator. He added, "I think we'd be reluctant to cut." U.S. Treasury yields were down across the curve last week; the 2-year, 5-year, 10-year, and 30-year dropped 10 bps (to 3.08 percent), 16 bps (to 3.18 percent), 9 bps (to 3.12 percent), and 4 bps (to 3.24 percent), respectively.
- Last week was quiet in terms of hard economic data and we saw small hints of easing inflation. Markets bounced back from the worst week of selling since March of 2020, largely prompted by modestly lower commodity prices amid the expectation that demand will soften. West Texas Intermediate oil was down 0.3 percent following a 10.5 percent drop the prior week. Additionally, the University of Michigan consumer sentiment survey showed that consumers' 1- and 5- to 10-year expectations ticked down slightly. Sectors that outperformed included consumer discretionary, healthcare, REITs, and tech while energy, materials, and industrials underperformed. This sector level performance suggests a reprieve rally as outperforming sectors have recently been under pressure by higher rates and inflation.
- On Tuesday, the May **existing home sales** report was released. Sales of existing homes fell 3.4 percent against calls for a 3.7 percent decline. This brought the pace of existing home sales to its lowest point since early 2020, leaving the pace of sales near pre-pandemic levels. Housing sales surged in the second half of 2020 and remained strong throughout 2021 as shifting home buyer preferences and low mortgage rates spurred purchases. Sales spiked again in January 2022; however, the pace of existing home sales has declined every month since then because of a lack of supply of homes for sale, rising mortgage rates, and high home prices. Looking ahead, economists expect to see continued headwinds for the housing industry, with rising costs and rates expected to stifle future sales growth. With that being said, slowing home sales may help combat inflation, given the large rise in prices we've seen over the past year and the importance of housing costs on overall inflation.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	6.46	–5.22	–17.31	–7.29
Nasdaq Composite	7.51	–3.87	–25.52	–18.61
DJIA	5.39	–4.37	–12.43	–6.74
MSCI EAFE	2.83	–7.95	–18.39	–17.86
MSCI Emerging Markets	0.80	–5.88	–16.95	–24.89
Russell 2000	6.02	–5.18	20.88	–23.48

Source: Bloomberg, as of June 24, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–2.21	–10.94	–10.52
U.S. Treasury	–1.63	–9.83	–9.18
U.S. Mortgages	–2.50	–9.61	–9.74
Municipal Bond	–1.99	–9.31	–8.78

Source: Morningstar Direct, as of June 24, 2022

What to Look Forward To

On Monday, the preliminary estimate of the May **durable goods orders** report was released. Orders of durable goods increased more than expected during the month, as headline orders grew 0.7 percent against calls for a 0.1 percent increase. This strong result was driven by a broad-based increase in orders, as core durable goods orders, which strip out volatile transportation orders, rose 0.7 percent against calls for a 0.3 percent increase. Core durable goods orders are viewed as a proxy for business investment, so this better-than-expected result is a good sign for business spending in the second quarter. Business confidence and spending have been supported by high levels of consumer demand throughout the year, and the continued business spending growth is an encouraging sign that business owners remain confident in the ongoing economic expansion.

On Tuesday, the **Conference Board Consumer Confidence** survey for June is set to be released. Consumer confidence is expected to decline during the month, with the index set to drop from 106.4 in May to 100.6 in June. This anticipated result would mark two consecutive months of declining confidence and would leave the index at its lowest level since February 2021. The drop in confidence in May was primarily due to rising concerns about the impact of inflation on the economy. Given the continued high level of consumer inflation in June, the anticipated drop in confidence makes sense. Looking forward, we'll likely need to see evidence of slowing inflation before we see confidence approach the pandemic-era highs we saw last June. Historically, lower confidence levels tend to serve as a headwind for consumer spending growth, so this will be an important area to monitor in the months ahead.

What to Look Forward To (continued)

On Thursday, the May **personal income** and **personal spending** reports are set to be released. Personal spending is set to increase 0.5 percent during the month, down from the 0.9 percent increase in April but still solid on a historical basis. This would mark five consecutive months of personal spending growth, which would be a solid result given the headwinds created by the pandemic at the start of the year and persistently high inflation throughout the economy. Consumer spending has been supported by high levels of pent-up consumer demand for goods and services this year, as well as rising wages and high levels of saving. Personal income is expected to increase 0.5 percent during the month following a 0.4 percent increase in April. Personal income growth was extremely volatile on a month-to-month basis throughout 2020 and 2021 due to shifting federal stimulus and unemployment payments; however, if estimates hold, this would mark eight straight months of income growth, highlighting the strength of the labor market recovery.

We'll finish the week with Friday's release of the **ISM Manufacturing** survey for June. This measure of manufacturer confidence is set to fall from 56.1 in May to 55 in June. This is a diffusion index where values above 50 indicate growth, so this anticipated result would still be a sign of expansion for the manufacturing industry during the month despite the expected decline for the index. Manufacturing confidence has remained in solid expansionary territory ever since the expiration of initial lockdowns in mid-2020, but we've started to see a downward trend in sentiment in 2022. If estimates hold, the index would hit its lowest level since July 2020, signaling rising manufacturer concern about the health of the economy. High levels of producer inflation, prompted by tangled global supply chains and rising material and labor costs, have served as headwinds for manufacturers this year. That said, manufacturing output has continued to improve in 2022, driven by high levels of consumer and business demand for manufactured goods.

Authored by the Investment Research team at Commonwealth Financial Network®