Weekly Market Update

General Market News

- The Federal Reserve (Fed) raised interest rates by another 75 basis points (bps) at last week's FOMC meeting, bringing its target range to 2.25 percent to 2.50 percent. Inflation remains stubbornly high and conversation among market participants is becoming increasingly focused on the timing—rather than the likelihood—of a potential recession. Some believe the U.S. may already be in a recession after seeing two quarters of economic contraction as measured by gross domestic product (GDP). Others, including Fed Bank of Atlanta President Raphael Bostic, maintain hope that such a development can still be avoided if the job market remains robust. "I don't think the country is in a recession," Mr. Bostic said on NPR. "One of the things that I've been encouraged by is actually how strong the job growth has been, which suggests to me there's a lot of momentum in the economy." He added, "There's a lot of demand out there, and so I think we're a ways away from a recession." The U.S. Treasury yield curve saw some inversion last week. Treasury yields fell on the short to intermediate end of the curve with the 2-year, 5-year, and 10-year down 6 bps (to 3 percent), 11 bps (to 2.73 percent), and 4 bps (to 2.71 percent), respectively. The 30-year, however, was up 8 bps (to 3.06 percent).

- Equity markets rallied last week, supported by seemingly dovish Fed speak from FOMC Chairman Jerome Powell and better-than-expected second-quarter earnings reports from Apple (AAPL) and Amazon (AMZN). In recent months, we've heard from companies such as Micron (MU), Qualcomm (QCOM), and Apple about the impact of lockdowns in China on sales and parts availability. In April, Apple said it expected a $4 billion–$8 billion revenue hit during the second quarter. The hit was smaller than expected, with the company beating revenue and gaining 3 percent in iPhone revenue growth year-over-year. Amazon's earnings were bolstered by better-than-expected performance from its cloud and advertising segments. Cost cuts on the fulfillment side also showed the company's ability to adapt following massive e-commerce demand during the Covid-19 pandemic. While these two FAANG names helped ease broader growth, the biggest news last week was the 75 bps rate hike at the July meeting. Powell highlighted the need for the Fed to remain data dependent during the postmeeting press conference, which was seen as an easing from prior discussion about crushing inflation. This commentary led market participants to believe we may be close to the end of a Fed rate hike cycle, with the bond market pricing in cuts to the federal funds rate in March of 2023.

- On Tuesday, the June housing starts and building permits reports were released. Housing starts fell 2 percent against calls for a 2 percent increase, while permits dropped 0.6 percent against calls for a 2.7 percent decline. Although these reports can be volatile on a monthly basis, this marks two months in a row with declining starts and three consecutive months with falling permits. Despite the recent decline in new home construction, starts and permits remain well above pre-pandemic levels, supported by low levels of supply of existing homes for sale and rising housing prices. Looking ahead, most economists expect to see a further slowdown in the housing sector due to rising mortgage rates.

- Wednesday saw the release of the June existing home sales report. Sales of existing homes fell 5.4 percent against calls for a more modest 1.1 percent decline. This marks five consecutive months with declining existing home sales. Low supply, rising prices, and rising mortgage rates have served as headwinds for faster home sales this year. The recent slowdown in sales growth brought the pace of existing home sales to its slowest level since national shutdown measures expired in spring 2020, highlighting the current challenges for the housing market.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	4.28	9.22	–12.58	–4.64
Nasdaq Composite	4.72	12.39	–20.47	–14.95
DJIA	2.97	6.82	–8.60	–4.14
MSCI EAFE	2.11	4.98	–15.56	–14.32
MSCI Emerging Markets	0.41	–0.25	–17.83	–20.09
Russell 2000	4.35	10.44	–15.43	–14.29

Source: Bloomberg, as of July 29, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	2.44	–8.16	–9.12
U.S. Treasury	1.59	–7.69	–8.69
U.S. Mortgages	3.21	–5.85	–6.69
Municipal Bond	2.64	–6.58	–6.93

Source: Morningstar Direct, as of July 29, 2022

What to Look Forward To

Wednesday will see the release of the FOMC rate decision from the Fed's July meeting. The central bank is expected to hike the upper limit of the federal funds rate by 75 bps, which would boost the upper limit from 1.75 percent to 2.5 percent. The Fed, which started hiking rates in March, is expected to continue to increase rates throughout the rest of the year to try to combat high levels of inflationary pressure across the economy. Economists will also closely monitor the Fed's news release and postmeeting news conference for hints on the future path of monetary policy.

On Thursday, the advance estimate for annualized second-quarter GDP growth is set to be released. Economists expect to see that the economy grew at an annualized rate of 0.4 percent. If estimates hold, this would be a relatively encouraging rebound after a 1.6 percent annualized GDP decline in the first quarter. Personal consumption growth is expected to increase 1.2 percent on an annualized basis, down from a 1.8 percent increase in the first quarter but still in healthy expansionary territory.

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