Weekly Market Update

General Market News

- After the Federal Reserve (Fed)'s second consecutive 75 basis point (bp) rate hike on July 27, all eyes now look toward the September Federal Open Market Committee (FOMC) meeting. With inflation remaining near 40-year highs, the markets and Fed officials are expecting continued rate hikes through year-end. St. Louis Fed President James Bullard expressed his expectations for another 1.5 percent of rate increases for the year. "I think we'll probably have to be higher for longer in order to get the evidence we need to see that inflation is actually turning around on all dimensions and in a convincing way coming lower, not just a tick lower here and there," Bullard explained. Last Friday's job report supports ongoing hikes. The U.S. saw a robust rise in nonfarm payroll of 528,000 jobs in July—compared to 250,000 jobs expected—and the unemployment rate edged down to 3.5 percent. The U.S. Treasury yield curve was up across most maturities last week. The 2-year, 5-year, and 10-year rose 17 bps (to 3.06 percent), 12 bps (to 2.8 percent), and 5 bps (to 2.7 percent), respectively, while the 30-year fell 3 bps (to 2.98 percent).
- Equity markets were mixed last week as the Nasdaq Composite Index and technology stocks continued their rally from the July FOMC meeting and better-than-feared earnings. Economic data came roughly in line with expectations, with the exception of Friday's jobs report. The surprise to the upside had a heavy impact on short-term rates within the fixed income market, but the equity market held up fairly well. Technology, consumer discretionary, and communication services were the best performers last week as sectors that were among the most beat up from Fed tightening believe we may be closer to the end of the cycle than the start. Energy, REITs, and materials were the worst-performing sectors last week, with investors questioning demand destruction via the Fed's tighter rate policy.
- On Friday, the July employment report was released. The report showed that more jobs were added during the month than expected, with 528,000 jobs created against 250,000 anticipated. This result was the best month for hiring since February and signals continued high levels of labor demand. The underlying data also showed signs of improvement. The unemployment rate fell from 3.6 percent to 3.5 percent against calls for no change, which brought the unemployment rate to the lowest level since the start of the pandemic and matches the 50-year low we saw in February 2020. The strong job market is expected to support the Fed's plans for tightening monetary policy throughout the year to combat inflation.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.39	0.39	–12.24	–5.18
Nasdaq Composite	2.18	2.18	–18.73	–14.07
DJIA	–0.11	–0.11	–8.71	–5.00
MSCI EAFE	–0.65	–0.65	–16.11	–15.75
MSCI Emerging Markets	0.96	0.96	–17.04	–20.26
Russell 2000	1.96	1.96	–13.77	–13.46

Source: Bloomberg, as of August 5, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–1.04	–9.11	–9.68
U.S. Treasury	–0.90	–8.52	–9.15
U.S. Mortgages	–1.42	–7.18	–7.77
Municipal Bond	–0.12	–6.69	–6.92

Source: Morningstar Direct, as of August 5, 2022

What to Look Forward To

Wednesday will see the release of the July Consumer Price Index report. Consumer prices are expected to increase 0.2 percent during the month and 8.7 percent on a year-over-year basis. If estimates hold, this would represent a notable cooling of inflation in July following 1.3 percent monthly and 9.1 percent year-over-year increases in June. One factor in the anticipated slowdown of headline consumer prices during the month is lower gas prices, as we've seen the average cost of gas fall notably after peaking in mid-June. Core consumer inflation, which strips out the impact of volatile energy and food prices, is expected to increase 0.5 percent during the month and 6.1 percent on a year-over-year basis.

On Thursday, the July Producer Price Index will be released. Producer prices are expected to increase 0.3 percent during the month and 10.3 percent on a year over year basis, down from the 1.1 percent monthly and 11.3 percent year over year increases that we saw in June. As was the case with consumer inflation expectations, falling energy prices are expected to contribute to the slowdown in headline producer inflation. Core producer inflation, which strips out volatile food and energy prices, is expected to increase 0.4 percent during the month and 5.9 percent on a year-over-year basis. While both consumer and producer inflation are set to slow in July, the Fed is expected to continue tightening policy until we see sustained evidence that inflation is returning closer to its 2 percent target.

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