Weekly Market Update

General Market News

- As the Federal Open Market Committee (FOMC) enters its quiet period leading up to the September 20–21 meeting, market participants are under the impression that the most likely outcome will be a 75 basis point (bp) hike in the Federal Reserve (Fed)'s policy rate. Fed Chair Jerome Powell seemed to support that expectation in an appearance last Thursday when he reiterated his hawkish stance and gave no indication that such expectations were unreasonable. "It is very much our view, and my view, that we need to act now forthrightly, strongly, as we have been doing, and we need to keep at it until the job is done." Powell went on to say, "the longer inflation remains well above target, the greater the risk the public does begin to see higher inflation as the norm and that has the capacity to really raise the costs of getting inflation down". Powell is not alone as other Fed officials have been sharing similar messages and signaling apparent support for a third consecutive increase of 75 bps. U.S. Treasury yields were up across the curve last week. The 2-year, 5-year, 10-year, and 30-year rose 10 bps (to 3.49 percent), 9 bps (to 3.38 percent), 8 bps (to 3.27 percent), and 10 bps (to 3.45 percent), respectively.
- The market rallied last week after falling in each of the previous three weeks. Economic news remains robust, leading investors to believe a 75 bps increase to the federal funds rate is increasingly likely at this month's meeting. Due to this thinking, investors entered the market as a faster increase in rates from the Fed could potentially mean hitting the target sooner and cooling off inflation. Inflation linked sectors understandably struggled, with energy and consumer staples being the two worst-performing sectors. Investors had a greater appetite for risk as consumer discretionary stocks were among top performers—after recently being under significant pressure—and Tesla, Amazon, Apple, and Nvidia drove S&P 500 performance. We'll look to the Consumer Price Index (CPI) data and future Fed actions to see if investor optimism was valid.
- On Tuesday, the ISM Services index for August was released. Service sector confidence increased more than expected, rising from 56.7 in July to 56.9 against calls for a drop to 55.3. This better-than-expected result was driven by increased new orders and business activity. This is a diffusion index, where values above 50 indicate growth, so this was an encouraging result. The index still sits well below its recent high of 68.4 from November 2021.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	3.68	2.90	–13.72	–7.38
Nasdaq Composite	4.15	2.53	–22.15	–19.28
DJIA	2.72	2.10	–10.16	–5.21
MSCI EAFE	0.89	0.06	–19.52	–20.69
MSCI Emerging Markets	–0.13	–2.34	–19.42	–23.71
Russell 2000	4.07	2.14	–15.39	–14.41

Source: Bloomberg, as of September 9, 2022

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	–0.91	–11.56	–12.28
U.S. Treasury	–0.85	–10.74	–11.44
U.S. Mortgages	–1.13	–10.10	–10.77
Municipal Bond	–0.90	–9.45	–9.42

Source: Morningstar Direct, as of September 9, 2022

What to Look Forward To

On Tuesday, the August CPI report is set to be released. Consumer prices are set to decline 0.1 percent for the month and increase 8.1 percent year-over-year; in July, there were no monthly changes and an 8.5 percent year-over-year growth rate. Core consumer prices are set to increase 0.3 percent during the month and 6.1 percent year-over-year. If estimates hold, this would mark two consecutive months with declining year-over-year consumer inflation; however, it would still leave the overall level of consumer inflation far too high.

What to Look Forward To (continued)

On Wednesday, the August Producer Price Index will be released. Producer prices are expected to remain unchanged during the month and increase 8.9 percent year-over-year. Core producer prices, which strip out the impact of food and energy prices, are expected to increase 0.3 percent during the month and 7 percent year-over-year. As was the case with consumer inflation, estimates are calling for two consecutive months with slower producer inflation, but year-over-year inflation remains too high. The Fed is expected to continue to tighten monetary policy throughout the rest of the year and the start of 2023 to combat inflation.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev. 09/22.

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