SEPTEMBER 19, 2022

Weekly Market Update

General Market News

- Last week came with the release of hotter-than-expected August inflation data. The Consumer Price Index (CPI) saw an increase of 0.1 percent against expectations for a decrease of that amount. Core inflation, which strips out volatile food and energy prices, increased 0.6 percent against expectations for 0.3 percent. We await the Federal Reserve (Fed)'s next rate decision at the Federal Open Market Committee (FOMC) meeting this week, where the central bank is expected to raise the federal funds rate by 75 basis points (bps). This would bring the upper target to 3.25 percent and mark the third consecutive rate increase of that amount as the Fed aims to tame inflation. U.S. Treasury yields were up across the curve last week. The 2-year, 5-year, 10-year, and 30-year rose 33 bps (to 3.89 percent), 22 bps (to 3.66 percent), 14 bps (to 3.45 percent), and 3 bps (to 3.48 percent), respectively.
- The market sold off heavily again last week as short-term borrowing rates increased when the August CPI came in higher than expected. As a result, the Fed has more work to do in terms of raising rates and cooling off consumer demand to drive inflation lower. Short-term rates also dramatically reacted to this data. Additionally, it was announced on Thursday that FedEx, one of the largest international shippers, pulled its guidance for next year amid lower shipment volumes and overall economic uncertainty. The worst-performing sectors—which put a premium on lower rates of borrowing to fuel future growth—were technology, communication services, industrials, and consumer discretionary. The sectors that held up best amid the sell-off were energy, utilities, materials, and real estate. These commodity and fixed rate sectors typically are thought of as inflation hedges, and it's not surprising to see them do well last week.
- On Tuesday, the August CPI report was released. Consumer inflation exceeded expectations, with headline prices increasing 0.1 percent against expectations for a 0.1 percent decrease. Core inflation, which strips out volatile food and energy prices, increased 0.6 percent against expectations for a smaller increase of 0.3 percent. On a year-over-year basis, headline inflation has risen 8.3 percent and core inflation has increased 6.3 percent. Falling oil prices were expected to help headline numbers contract over the period, but declines in the oil sector were offset but increases in other areas, such as food and shelter. These numbers show the ongoing struggle the Fed faces in its fight against rising prices, bolstering the case for continued hawkishness and additional interest rate hikes in the coming months.
- Wednesday saw the release of the August Producer Price Index (PPI) report. This index, which measures the prices received at the wholesale level, decreased 0.1 percent on a headline basis, aligning with economist expectations. Stripping out more volatile food and energy prices, core producer prices increased 0.2 percent. Year-over-year, headline producer prices rose 8.7 percent. Although that number seems quite high, it represents a significant retreat from the 9.8 percent year-over-year increase measured in July. Although the PPI is sometimes considered a leading indicator of what is to come for the CPI, it's important to remember that services are a large component of consumer prices and are not factored into the physical goods that make up the PPI. Regardless, the Fed will look for meaningful decreases in both indices before it considers any sort of monetary policy pivot.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	−4.73	−1.97	−17.80	−11.28
Nasdaq Composite	−5.46	−3.07	−26.40	−23.33
DJIA	−4.11	−2.10	−13.85	−9.07
MSCI EAFE	−2.72	−2.66	−21.71	−21.77
MSCI Emerging Markets	−2.64	−4.92	−21.54	−24.05
Russell 2000	−4.46	−2.41	−19.16	−18.59

Source: Bloomberg, as of September 16, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	−1.82	−12.38	−13.07
U.S. Treasury	−1.62	−11.44	−12.10
U.S. Mortgages	−2.22	−11.09	−11.68
Municipal Bond	−1.58	−10.07	−10.06

Source: Morningstar Direct, as of September 16, 2022

What to Look Forward To

On Wednesday, we expect the release of the FOMC rate decision from the Fed's September 20–21 meeting. Some economists and market participants expect an outsized rate increase of 1 percent after last week's discouraging CPI report, but pricing within the derivatives market indicates a much lower probability of that happening. The inflation report came out after the Fed had already entered its quiet period leading up to the meeting, but central bank officials had previously signaled support for a 75 bps hike, and they do their best to not surprise markets. Nonetheless, the Fed has made inflation its top priority and has consistently reiterated its reliance on economic data, so we eagerly await the rate decision and Chairman Jerome Powell's news conference afterward to gain a better understanding of how it views recent economic developments.

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