

WeeklyMarket Update



General Market News

- The September employment report showed 263,000 jobs added during the month, which helped drive the unemployment rate down to 3.5 percent. This development further supports the Federal Reserve (Fed)'s trend of outsized interest rate hikes, as a higher unemployment rate is likely required to see meaningful cooling of inflation. As we approach the Fed's November 1–2 meeting, the debate continues between those who think more must be done to fight stubbornly high inflation and those who think rates may be increasing too quickly for the economy to handle. The aforementioned employment report likely bodes well for the Fed to continue their aggressive rate path. Along with many other Fed officials, Fed Governor Lisa Cook acknowledges the relevance of both arguments. "Although lowering inflation will bring some pain, a failure to restore price stability would make it much harder and much more painful to restore it in the future," said Cook. "It is critical that we prevent an inflationary psychology from taking hold." The yield curve saw some movement over the course of last week but finished roughly where it started. The 2-year, 5-year, 10-year, and 30-year landed at 4.31 percent (up 10 bps), 4.15 percent (up 11 bps), (up 9 bps), and 3.85 percent (up 9 bps), respectively.
- The equity was up on a week of mixed trading. The markets moved higher the first two days of the week but reversed heavily on Friday following a better-than-expected employment report. The report adds more fuel to the inflationary fire that the Fed has been trying to douse with three consecutive 75 basis point (bp) rate hikes. This week will see the start of earnings season, which will be closely watched as investors look to see current earnings as well as future earnings guidance. Last week, we saw the latest earnings preannouncement from Advanced Micro Devices (AMD), which sent the stock down by 7.77 percent. Earnings have been revised down at a greater rate than historical norms for last quarter, but two questions remain: Do they have more to go? What do current valuations look like given these lower earnings?
- Monday saw the release of the ISM Manufacturing Index for September. The index came in weaker than expected at a 50.9 level below that of the 52.0 level expected. This is a diffusion index that takes surveys from numerous industries to provide an overall gauge on the manufacturing side of the economy. A level above 50 is considered expansionary, whereas a level below 50 is considered contractionary.
- Wednesday's ISM Services index fared well, coming in at a better-than-expected level of 56.7 versus an expected level of 56. The result shows a services segment of the economy that is seeing a modestly more favorable outlook than that of its manufacturing counterpart.
- On Friday, the much-anticipated (and better-than-expected) employment report for September was released, which showed 263,000 non-farm payrolls added versus 255,000 expected. The unemployment rate fell from 3.7 percent to 3.5 percent, leading to a sell-off in bonds and equities as it provided additional runway for continued rate hikes from the Fed.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.56	1.56	-22.68	-15.83
Nasdaq Composite	0.75	0.75	-31.49	-26.38
DJIA	2.03	2.03	-18.08	-13.97
MSCI EAFE	1.94	1.94	-25.68	-23.32
MSCI Emerging Markets	2.52	2.52	-25.32	-26.55
Russell 2000	2.27	2.27	-23.40	-22.78

Source: Bloomberg, as of October 7, 2022

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	-0.25	-14.83	-14.39
U.S. Treasury	-0.43	-13.47	-12.87
U.S. Mortgages	-0.32	-13.94	-14.04
Municipal Bond	0.83	-11.40	-10.62

Source: Morningstar Direct, as of October 7, 2022



What to Look Forward To

This week's data releases will be highlighted by a double header of inflationary data and consumer data.

Wednesday will see the release of Producer Price Index data. Economists expect to see producer prices rise in September after declining in August, although they are set to slow on a year-over-year basis. This will be followed by the much-anticipated Consumer Price Index data for September on Thursday. Consumer prices are expected to increase

modestly during the month; on a year-over-year basis, however, consumer inflation is expected to slow compared to August.

Finally, the week will wrap Friday with September retail sales and the University of Michigan Consumer Sentiment preliminary report for October. Retail sales are expected to rise in September, which would mark two consecutive months with sales growth. Consumer sentiment is set to improve for the fourth straight month in October.

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. 10/22.

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