OCTOBER 24, 2022

Weekly Market Update

General Market News

- With the labor market remaining tight and inflation proving stickier than expected, the Federal Open Market Committee (FOMC) heads toward its final two meetings this year with expectations for additional rate hikes of 75 basis points (bps). A December hike of 50 bps is also being discussed among market participants as a possible move. "We are going to keep raising rates for a while," said Philadelphia Fed President Patrick Harker. "Given our frankly disappointing lack of progress on curtailing inflation, I expect we will be well above 4 percent by the end of the year." He added: "Sometime next year, we are going to stop hiking rates. At that point, I think we should hold a restrictive rate for a while to let monetary policy do its work." U.S. Treasury yields were up across the curve last week. The 2-year gained 12 bps to 4.62 percent, the 5-year rose 21 bps to 4.48 percent, the 10-year grew 28 bps to 4.3 percent, and the 30-year yield increased 32 bps to 4.32 percent.

- Equity markets rallied amid signs of resilient earnings, a stronger-than-expected consumer, speculation over a Fed pause, and peak bearishness. Netflix, United Airlines, and Abbott Labs each posted earnings surprises of at least 20 percent. Netflix returned to subscriber growth, while United Airlines continued to see solid travel demand. Communication services, health care, and better-than-expected performance in financials despite significant downward earnings revisions over the last quarter have bolstered earnings. Roughly 20 percent of S&P 500 companies have reported earnings, according to FactSet. A recent Wall Street Journal article speculated that the Fed may consider a hike of 50 bps in December as discussion of overtightening has arisen. Finally, a Bank of America Fund Manager survey indicated that cash levels have risen to 6.1 percent, a level not seen since after the September 11 attacks in 2001. This indicates an extreme level of pessimism across investors—perhaps to a fault.

- Last week's data focused primarily on housing. Tuesday saw the release of the National Association of Home Builders Housing Market Index, which surveys 900 home builders to provide a relative gauge of current and future single-family home sales. Home builder sentiment dropped more than expected in October, marking 10 consecutive months with declining sentiment.

- Wednesday's housing starts and building permits data were mixed in September. These volatile measures of new home construction fell more than expected, while permits unexpectedly rose.

- Finally, Thursday saw the release of existing home sales, which fell less than expected in September; however, this marks nine consecutive months with declining home sales as rising prices and mortgage rates continue to cool the housing sector.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	4.75	4.75	–20.25	–16.14
Nasdaq Composite	5.22	2.71	–30.16	–27.49
DJIA	4.93	8.31	–13.04	–11.09
MSCI EAFE	0.55	1.12	–26.28	–26.19
MSCI Emerging Markets	0.21	–1.19	–28.03	–31.20
Russell 2000	3.57	4.70	–21.58	–22.96

Source: Bloomberg, as of October 21, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–2.49	–16.74	–16.27
U.S. Treasury	–2.26	–15.05	–14.39
U.S. Mortgages	–2.88	–16.15	–16.06
Municipal Bond	–0.35	–12.44	–11.46

Source: Morningstar Direct, as of October 21, 2022

What to Look Forward To

This week will see the release of data related to consumers and the overall health of the U.S. economy.

Tuesday will see the release of the Conference Board Consumer Confidence Index for October and durable goods orders for September. Consumer confidence is expected to decline modestly in October following improvements in August and September.

Thursday will see the advanced report for third-quarter GDP growth and durable goods orders for September. GDP is set to increase 2.3 percent annualized in the third quarter, which would be a welcome rebound after two quarters with declines. The preliminary estimate for durable goods orders is expected to show a rebound in business spending after a modest decline in August.

Finally, Friday will see the release of the personal spending and income reports for September. Both are expected to increase in September, echoing similar increases from August.

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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