DECEMBER 12, 2022

Weekly Market Update

General Market News

- The Federal Reserve (Fed)'s next rate decision will be announced this Wednesday, December 14, and market participants eagerly await the decision. Even after the four consecutive rate increases of 75 basis points (bps), several recent economic data releases have been strong enough to convince some that rates will have to go higher and/or stay higher for longer. The battle against persistent inflation continues as fear of a recession also remains front and center in many minds. The Federal Open Market Committee (FOMC) must navigate this balancing act with poise, not knowing what surprise developments could tip the scale one way or the other in the coming months. The U.S. Treasury curve changed very modestly last week. The 2-year held around 4.27 percent, the 5-year was up 3 bps (to 3.68 percent), the 10-year decreased 2 bps (to 3.47 percent), and the 30-year fell 10 bps (to 3.45 percent).
- Equities markets moved lower last week as the market continues to claw back against some moves from Fed Chairman Jerome Powell's comments in November. Oil was hit hard last week, with West Texas Intermediate crude down 11.2 percent amid macroeconomic concerns. The market took a risk-off approach as utilities, health care, REITs and staples outperformed. Cyclicals such as energy, consumer discretionary, and financials were challenged amid concerns of a slowdown in 2023 as inflationary and economic data came in stronger than expected. Emerging markets bucked the trend as the China Covid-19 reopening trade remains in place.
- There were a number of reports released last week, the biggest of which were the ISM Services report and Producer Price Index on Monday and Friday, respectively. Service sector confidence increased more than expected in November, as the holiday season has helped bolster service sector sentiment.
- Tuesday saw the release of the international trade report for October. The trade deficit widened less than expected in October as imports increased while exports fell. Despite this widening, the monthly deficit remained well below the record of nearly $107 billion that we saw in March.
- On Friday, the Producer Price Index for November was released alongside the December University of Michigan consumer sentiment survey. Producer prices increased slightly more than expected in November, but producer inflation declined on a year-over-year basis. The larger-than-expected rise in producer prices in November is a reminder that real work still needs to be done to get inflation under control. Consumer sentiment improved more than expected to start December, driven in part by falling short-term inflation expectations.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	−3.35	−3.52	−16.17	−15.15
Nasdaq Composite	−3.98	−4.02	−29.10	−29.02
DJIA	−2.74	−3.15	−5.95	−4.98
MSCI EAFE	−0.20	1.83	−12.96	−11.15
MSCI Emerging Markets	0.48	0.65	−18.43	−18.71
Russell 2000	−5.06	−4.73	−18.94	−17.64

Source: Bloomberg, as of December 9, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.89	−11.84	−11.72
U.S. Treasury	0.79	−11.31	−11.27
U.S. Mortgages	0.67	−10.83	−10.70
Municipal Bond	0.83	−8.03	−7.93

Source: Bloomberg, as of December 9, 2022

What to Look Forward To

This week will be a busy one in terms of economic data and events.

The data reports will begin on Tuesday with the Consumer Price Index for November. Consumer prices are set to increase modestly during the month yet show continued slowdown in year-over-year growth.

The highlight of the week will come on Wednesday with FOMC rate decision for December. The Fed is expected to hike the federal funds rate 50 bps at its December meeting.

Retail sales for November are due out on Thursday. Consumer sentiment came in better-than-expected last week and may provide an indication into retail sales.

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. 12/22.

Authored by the Investment Research team at Commonwealth Financial Network®