JULY 18, 2022

Weekly Market Update

General Market News

- Last Wednesday, U.S. inflation numbers for the month of June were released and the Consumer Price Index (CPI) report exceeded expectations with an increase of 9.1 percent year-over-year. This upside surprise in prices is keeping the Federal Reserve (Fed) on its toes in advance of its July 26–27 meeting; some market participants are expecting the Federal Open Market Committee (FOMC) to increase rates by a full percentage point, while other Fed officials are trying to reign in those expectations. Fed Governor Christopher Waller currently believes a 75 basis point (bp) hike is the right move. "You don't want to overdo the rate hikes. A 75 [bps] hike, folks, is huge," Waller explained. "Don't think because you're not going 100, you're not doing your job." Waller didn't rule out a 100 bps increase if last month's remaining economic data announcements point him down that path, but that is yet to be seen. This week will bring numerous data releases related to housing, a significant component of inflation, so there is still much that could develop prior to next week's Fed meeting. U.S. Treasury yields were down modestly last week; the 2-year, 5-year, 10-year, and 30-year fell 1 bp (to 3.10 percent), 9 bps (to 3.04 percent), 15 bps (to 2.93 percent), and 16 bps (to 3.09 percent), respectively.
- Markets sold off slightly last week as a higher-than-expected inflation report led to uncertainty around Fed policy. Wednesday's CPI data came in with a 1.3 percent month-over-month increase against expectations for 1.1 percent. Energy, autos, airfares, and shelter drove the index higher. Following the report, expectations for a more rapid 100 bps federal funds rate hike increased dramatically. These expectations climbed near 90 percent at one point before St. Louis Fed President James Bullard—who is known as the most hawkish FOMC member—stated that he does not feel strongly for one at the upcoming meeting. As a result, stocks and growth (particularly technology, health care, and consumer discretionary) rallied on Friday. This performance was mixed with consumer staples, utilities, and tech as the three top-performing sectors for the week. Communication services, energy, and materials lagged as the President's trip to Saudi Arabia led to speculation around higher production from OPEC countries.
- On Wednesday, the June Consumer Price Index report was released. Consumer prices increased more than expected, with headline prices rising 1.3 percent against calls for a 1.1 percent increase. On a year-over-year basis, headline consumer prices increased 9.1 percent, up from 8.6 percent in May and above economist estimates for an 8.8 percent increase. That's the highest level of year-over-year consumer inflation in 41 years. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.7 percent during the month and 5.9 percent year-over-year against forecasts for 0.5 percent and 5.7 percent increases, respectively. Despite the larger-than-expected increase in core consumer prices, this represents a modest slowdown in year-over-year core consumer inflation after a 6 percent increase in May.
- On Thursday, the June Producer Price Index report showed that producer prices increased

General Market News (continued)

more than expected, rising 1.1 percent in the month and 11.3 percent year-over-year against calls for 0.8 percent and 10.7 percent gains, respectively. Core producer prices, which strip out volatile food and energy prices, increased 0.4 percent in June and 8.2 percent year-over-year. Producer inflation has been driven by supply chain issues and rising material and labor costs this year, and the report showed that these headwinds continued to affect prices in June. Given still-high levels of consumer and producer inflation in June, the Fed is expected to spend the year tightening monetary policy to try to slow economic expansion and combat rising price pressure.

- On Friday, the June retail sales report was released. Retail sales increased more than expected, with headline sales increasing 1 percent against forecasts for a 0.9 percent increase. This was an encouraging rebound for retail sales growth after a 0.3 percent drop in sales in May, indicating that the slowdown was temporary rather than the start of a sustained slowdown. Core retail sales, which exclude auto and gas sales, increased 0.7 percent, up from the 0.1 percent drop in May and well above economist estimates for a 0.1 percent increase. Consumer spending held up well during the first half of the year despite headwinds created by inflation, stock market sell-offs, and worsening consumer sentiment, which is an encouraging sign that consumers remain willing and able to go out and spend.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.91	2.12	–18.27	–9.41
Nasdaq Composite	–1.57	3.86	–26.50	–20.06
DJIA	–0.16	1.71	–12.97	–8.03
MSCI EAFE	–1.75	–1.55	–20.81	–18.99
MSCI Emerging Markets	–3.69	–3.54	–20.54	–26.24
Russell 2000	–1.40	2.17	–21.76	–18.39

Source: Bloomberg, as of July 15, 2022

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.62	–9.80	–10.35
U.S. Treasury	0.28	–8.88	–9.45
U.S. Mortgages	0.82	–8.03	–8.56
Municipal Bond	1.46	–7.65	–7.88

Source: Morningstar Direct, as of July 15, 2022

What to Look Forward To

On Tuesday, the June housing starts and building permits reports are set to be released. These measures of new home construction are expected to be mixed, with permits expected to decline 0.9 percent and starts anticipated to increase 3 percent. These reports, which can be volatile on a month-to-month basis, are expected to come in well above pre-pandemic levels. Housing has been one of the best performing sectors since initial lockdowns ended in 2020, but the industry has begun showing signs of a slowdown this year, driven in large part by rising mortgage rates and a limited supply of homes for sale. If we see an increase in new home construction during the month, it would be an encouraging sign that home builders continued to break ground on new units, which, in turn, would help the supply-constrained market.

Wednesday will see the release of the June existing home sales report. Sales of existing homes are set to decline 0.2 percent after a 3.4 percent decline in May. On an annualized basis, sales of existing homes are set to fall to 5.4 million, down notably from the recent high of 6.5 million sales in January. Rising mortgage rates, a lack of supply of homes for sale, and rising prices have contributed to the slowdown in existing home sales growth. If estimates hold, it would mark the lowest level of existing home sales since the expiration of initial lockdowns, leaving sales near their pre-pandemic level. Given the fact that housing costs represent a large portion of consumer spending, the slowdown in sales growth may help slow home price appreciation and consumer inflation in the second half of the year.

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