Weekly Market Update

General Market News

- As the U.S. continues to battle inflation near 40-year highs and equity investors become increasingly spooked, the Federal Reserve (Fed) reminds us that corralling inflation is its primary goal. “I think what we’re looking for is the transmission of our policy through market’s understanding, and that tightening should be expected,” explains Kansas City Fed President Esther George. “So, it’s not aimed at the equity markets in particular, but I think it is one of the avenues through which tighter financial conditions will emerge.” George solidified her view that 50 basis point (bp) rate hikes should be sufficient for the job at hand. “Moving deliberately, making sure we stay on course to get some of those rate increases into the economy and then watch how that’s unfolding is going to be really the focus of my attention,” she said. “I think we’re good at 50 bps right now, and I’d have to see something very different to say we need to go further than that.” Treasury yields didn’t see much movement last week; the 2-year, 5-year, and 30-year U.S. Treasury yields rose 5 bps (to 2.31 percent), 2 bps (to 2.84 percent), and 5 bps (to 3.05 percent), respectively. The 10-year U.S. Treasury yield dropped 1 bp to 2.94 percent.
- The S&P 500 fell 3 percent last week, marking the 7th straight week of declines and the longest streak of weekly declines since 2001. The index flirted with falling in bear market territory (a total decline of 20 percent from its peak) but rallied slightly on Friday to avoid the mark. The market continues to deal with inflation and the Fed’s policy concerns. We also saw consumer spending trends—which shifted from big ticket items such as outdoor furniture and electronics to consumer staples—hurt retail chains such as Walmart (WMT) and Target (TGT) last week. The two names were down 19.5 percent and 29.3 percent, respectively. This was somewhat expected due to the rising food prices. Cooler spring weather also hurt outdoor furniture sales and was one example of excessive inventory buildup by retailers. The dramatic sell-off was due to concerns about lower margins and earnings moving forward. Additionally, we have seen companies such as Amazon and Walmart cite overstaffing following the pandemic. The worst performers last week were consumer staples (driven by Walmart), consumer discretionary (led by Target), and technology. Energy, healthcare, and utilities sectors outperformed.
- On Tuesday, the April retail sales report was released. Retail sales increased 0.9 percent, slightly less than the 1 percent increase that was expected. March’s retail sales growth was revised up from 0.5 percent to 1.4 percent during the month. Core retail sales, which strip out the impact of volatile auto and gas sales, increased 1 percent, better than the expected 0.7 percent increase. Core retail sales growth in March was also revised upward. This now marks four consecutive months with rising headline and core sales growth, which is especially impressive given the headwinds created by rising medical risks earlier in the year and high levels of consumer inflation. Consumer spending drives the majority of economic activity in the country, so the continued strength in spending in April was a positive sign for overall growth to start the second quarter.

General Market News (continued)

- Tuesday also saw the release of the April industrial production report. Production increased 1.1 percent, up from the 0.9 percent increase in March and higher than economist forecasts for a 0.5 percent increase. This strong result was driven in part by increased manufacturing production during the month. Manufacturing production rose 0.8 percent in April, which was better than the 0.4 percent increase that was expected. We've seen manufacturing production show solid signs of improvement in each of the past three months after an Omicron-driven lull in January. Capacity utilization, which is a measure of potential output that is actually being realized, hit a 15-year high in April, highlighting the impressive increase in manufacturing activity we've seen this year. In the months ahead, continued industrial and manufacturing production growth would be another signal that the economy is continuing to grow at a healthy pace despite headwinds.

- The third and final major data release on Tuesday was the release of the National Association of Home Builders Housing Market Index for May. This measure of home builder confidence fell more than expected, dropping from 77 in April to 69 against calls for a more modest drop to 75. This brought the index to its lowest level since April 2020, as rising material and labor costs weighed on home builder confidence. In addition, rising mortgage rates and housing prices led to a drop in prospective home buyer foot traffic during the month. Despite the larger-than-expected decline for the index, this result still left home builder confidence in expansionary territory. The housing sector has been one of the bright spots in the economic expansion since initial lockdowns expired in spring 2020; however, given rising housing headwinds, we may be starting to see a slowdown in activity for the sector.

- On Wednesday, the April building permits and housing starts reports were released. Both measures of new home construction fell, with permits dropping 3.2 percent against calls for a 3 percent decline and starts slipping 0.2 percent against calls for a 2.1 percent decline. Although these indicators can be quite volatile on a monthly basis, the pace of starts and permits remains well above pre-pandemic levels and signals continued strong levels of new home construction despite headwinds created by falling home builder confidence and rising material and labor costs. The backlog of single-family homes that are authorized for construction but not yet started increased during the month to its highest level in 15 years, signaling continued capacity for builders in the months ahead. Although we've started to see signs of a slowdown for the housing sector, it's important to remember that slower growth is still growth and that slowdowns follow an extended period of very strong growth levels.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–3.00	–5.45	–17.67	–4.79
Nasdaq Composite	–3.77	–7.85	–27.20	–15.14
DJIA	–2.78	–5.00	–13.29	–6.87
MSCI EAFE	1.50	–2.76	–14.43	–12.72
MSCI Emerging Markets	3.13	–3.69	–15.39	–20.38
Russell 2000	–1.05	–4.77	–20.67	–19.06

Source: Bloomberg, as of May 20, 2022

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	0.36	–9.18	–8.16
U.S. Treasury	0.45	–8.09	–6.92
U.S. Mortgages	0.85	–7.53	–7.69
Municipal Bond	–1.47	–10.16	–9.33

Source: Morningstar Direct, as of May 20, 2022

What to Look Forward To

Wednesday will see the release of the preliminary estimate for the April durable goods orders report. Economists have forecasted a 0.6 percent increase for durable goods orders during the month, down from the better-than-expected 1.1 percent increase in orders in April. Core durable goods orders, which strip out the impact of volatile transportation orders, are expected to grow 0.6 percent during the month following a 1.4 percent increase in March. If estimates hold, this would mark two consecutive months with increased business orders following an Omicron-induced drop in orders in February. Core durable goods orders are often viewed as a proxy for business investment, so continued growth in April would be a welcome sign that businesses continued to invest despite rising prices. Business spending has remained solid throughout the pandemic, as business owners have continued investing to try and meet high levels of buyer demand.

Wednesday will also see the release of the FOMC meeting minutes from the Fed's most recent May meeting. The central bank hiked the federal funds rate 50 bps at this meeting and announced plans to reduce the size of its balance sheet going forward. While both actions were expected from markets and economists, these will still be widely monitored minutes as they should give a better idea of the discussions leading up to both decisions. Given the improvements we've seen in the labor market over the past two years and the high levels of consumer and producer inflation throughout the economy, the Fed is expected to spend the rest of 2022 and the start of 2023 tightening monetary policy in an attempt to tamp down rising prices. While the plans for tighter monetary policy are an encouraging sign that the Fed views the economy as healthy enough to

What to Look Forward To (continued)

withstand higher rates, tighter policy can put pressure on valuations and cause market turbulence. Therefore, any updates from the central bank will be worth monitoring throughout the year.

On Friday, the April personal income and personal spending reports are set to be released. Personal spending is set to increase 0.6 percent during the month following a 1.1 percent increase in March. If estimates prove to be accurate, this would mark four consecutive months with rising personal spending, echoing the similar improvements we've seen for retail sales so far this year. Personal income is also expected to show improvements, with economists calling for a 0.5 percent increase in personal income in April. Personal income growth was volatile early on during the pandemic, as shifting unemployment and federal stimulus payments caused large monthly swings in income growth. We've seen growth stabilize since last fall, and continued income growth in April would mark seven straight months with improved personal income. Looking forward, the tight labor market is expected to support further income growth, which, in turn, may support future spending.

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