Weekly Market Update

General Market News

- The balancing act continues following the 75 basis point (bp) interest rate hike at the 6/14–6/15 Federal Open Market Committee (FOMC) meeting. The Federal Reserve (Fed) aims to bring inflation closer to its 2 percent target without sending the country into a recession. Some analysts and economists are speculating that the U.S. may already be in a recession, so second-quarter gross domestic product (GDP) data will be closely watched as advanced estimates are released later this month. Market participants are also anticipating this Wednesday's release of the Fed's June meeting minutes, which will not only shed light on the discussions surrounding last month's outsized rate hike, but may also offer some insight into the potential paths for monetary policy moving forward. U.S. Treasury yields were down across the curve last week. The 2-year, 5-year, 10-year, and 30-year dropped 28 bps (to 2.83 percent), 34 bps (to 2.89 percent), 23 bps (to 2.91 percent), and 13 bps (to 3.13 percent), respectively.

- Markets sold off as investors took a risk among concerns over cuts to earnings and softening economic data. While inflation fears may be easing from declining consumer confidence and personal spending, recession fears are picking up. We received updates from a number of companies last week, including Micron (MU), General Motors (GM), and Nike (NKE). These stocks were down by 8.2 percent, 7.6 percent, and 10.4 percent, respectively. The second quarter appears to pose a number of headwinds for earnings. Nike specifically cited headwinds due to factory operations in China and lockdowns on the consumer side. Additional headwinds came due to elevated ocean freight costs, higher product costs, and increased supply chain investments. GM warned of manufacturing issues in the second quarter, while Micron posted lower-than-expected results prompted by a slowdown in consumer tech hardware and weak demand in China. Restoration Hardware (RH) and Bed Bath and Beyond (BBBY) also sold off significantly due to supply chain issues, and Restoration Hardware cut its sales guidance for 2022 amid weakening consumer demand. Bed Bath and Beyond, however, saw its sales fall by 28 percent from the same quarter in 2021, citing a lack of inventory. We saw a mix of reasons for cuts last week, which could be an indication of difficult second-quarter earnings.

- On Monday, the preliminary estimate of the May durable goods orders report was released. Orders of durable goods increased more than expected, with headline orders growing 0.7 percent against calls for a 0.1 percent increase. This strong result was driven by a broad-based increase in orders during the month, as core durable goods orders, which strip out volatile transportation orders, rose 0.7 percent against calls for a 0.3 percent increase. Core durable goods orders are viewed as a proxy for business investment, so this better-than-expected result is a good sign for business spending in the second quarter. Business confidence and spending have been supported by high levels of consumer demand throughout the year, and continued business spending growth is an encouraging sign that business owners remain confident in ongoing economic expansion.

- On Tuesday, the Conference Board Consumer Confidence Index for June was released. Consumer confidence fell more than expected, dropping from a downwardly revised 103.2 in May to 98.7 against calls for a more modest decline to 100. This result marks two consecutive months with declining confidence, leaving the index at its lowest level since February 2021. The decline in confidence was primarily driven by souring consumer expectations, which, in turn, was due to fears of persistent inflation. Looking ahead, we'll likely need to see sustained evidence of slowing inflation before confidence rebounds to recent highs. Historically, lower confidence levels have served as a headwind for consumer spending growth, so this will be an important area to monitor in the months ahead given the importance of consumer spending on the overall economy.

General Market News (continued)

- Speaking of consumer spending, Thursday saw the release of the May personal income and personal spending reports. Spending increased 0.2 percent, down from the 0.9 percent increase in April and below economist estimates for a 0.5 percent increase. Despite the miss against expectations, this marks five consecutive months with personal spending growth, which is encouraging given headwinds created by high levels of inflation and sliding confidence this year. Spending has been supported by healthy consumer balance sheets and high levels of pent-up demand; however, these tailwinds may be fading. The personal income report showed that income increased 0.5 percent during the month, up from the 0.4 percent increase in April and in line with economist estimates. This marks eight straight months with personal income growth, highlighting the continued strength of the labor market and the associated positive impact for workers.
- We finished the week with Friday's release of the ISM Manufacturing index for June. This measure of manufacturer confidence fell from 56.1 in May to 53 against calls for a more modest drop to 54.5. This is a diffusion index, where values above 50 indicate growth, so this result still signaled expansion for the manufacturing industry despite the larger-than-expected decline for the index. Manufacturing confidence has remained in solid expansionary territory since the expiration of initial lockdowns in mid-2020; however, we've seen a downward trend in sentiment this year. The index now sits at its lowest level since June 2020, signaling rising headwinds for the manufacturing industry. High levels of producer inflation, driven by supply chain issues and rising material and labor costs, have served as a headwind for manufacturers this year. With that being said, manufacturing output has continued to improve in 2022, driven by high levels of consumer and business demand for manufactured goods.

% Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.18	1.06	–19.11	–10.83
Nasdaq Composite	–4.12	0.90	–28.60	–23.46
DJIA	–1.27	1.05	–13.54	–8.88
MSCI EAFE	–2.19	0.22	–20.18	–18.77
MSCI Emerging Markets	–1.58	–0.68	–18.27	24.83
Russell 2000	–2.09	1.16	–22.54	–24.17

Source: Bloomberg, as of July 1, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.61	–9.81	–9.86
U.S. Treasury	0.53	–8.66	–8.57
U.S. Mortgages	0.78	–8.07	–8.38
Municipal Bond	0.36	–8.66	–8.32

Source: Morningstar Direct, as of July 1, 2022

What to Look Forward To

On Wednesday, the ISM Services survey for June is set to be released. This measure of service sector confidence is set to drop from 55.9 in May to 54.5 in June. This is another diffusion index where values above 50 indicate growth, so this anticipated result would still signal continued expansion for the service sector during the month despite the expected decline for the index. Service sector confidence has remained in healthy expansionary territory since June 2020; however, we've seen confidence decline notably since setting a record high of 68.4 last November. High levels of inflation throughout the economy and labor shortages have served as headwinds for service sector confidence in 2022, and these headwinds are expected to remain in place in the months ahead. That said, continued high levels of demand and a shift from spending on goods to services are expected to keep service sector confidence in expansionary territory.

Wednesday will also see the release of the FOMC minutes from the Fed's June meeting. The central bank elected to hike the federal funds rate 75 bps at this meeting, which was the third meeting in a row with higher interest rates. The Fed's decision to hike 75 bps rather than 50 was largely anticipated by markets due to the higher-than-expected level of consumer inflation in May; however, the minutes will give economists better insight into the impact of fresh data on the Fed's decision-making process. The Fed is expected to spend the rest of 2022 and the start of 2023 tightening monetary policy in an attempt to tamp down inflationary pressure. Given the outsized impact that Fed decisions can have on markets, any updates from the central bank will be widely monitored by investors and economists.

On Thursday, the May international trade report is set to be released. The trade deficit is expected to shrink during the month, with forecasts calling for a reduction from $87.1 billion in April to $85 billion in May. If estimates hold, this would bring the monthly deficit to its smallest level so far this year after we saw a record $107.7 billion deficit in March. The advance report on the trade of goods showed that the trade deficit for goods declined, as exports increased 1.1 percent while imports dropped 0.1 percent. International trade was a net detractor from overall GDP growth in the first quarter due to the widening of the monthly deficit in March. But, if estimates hold for May, trade may be set to help boost overall economic growth in the second quarter.

We'll finish the week with Friday's release of the June employment report. Economists expect to see 275,000 jobs added during the month, down from the 390,000 that were added in May. If estimates hold, this would represent a strong month for job creation on a historical basis, and it would mark 18 consecutive months of job growth. The labor market recovery over the past two years has been robust and impressive and has been the major driver of the overall economic recovery during that period. The underlying data is also expected to remain solid, with the unemployment rate set to remain unchanged at 3.6 percent for the fourth month in a row. The unemployment rate bottomed at 3.5 percent before the start of the pandemic and hit a high of 14.7 percent during the initial lockdowns in April 2020—so the swift improvement over the past two years is encouraging. Given the strength of the labor market and the high levels of inflation in the economy, the Fed is expected to continue slowing the pace of economic growth throughout the rest of the year.

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. 07/22.

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