

WeeklyMarket Update



General Market News

- Following last week's release of the Federal Reserve (Fed)'s June meeting minutes, all eyes now turn toward the July meeting. With core inflation remaining stubbornly higher than the Federal Open Market Committee (FOMC) would like, another large rate increase could be in the cards. Two Fed officials, Fed Governor Christopher Waller and St. Louis Fed President James Bullard, have already signaled support for a 75 basis point (bp) hike in July. "Inflation is just too high and doesn't seem to be coming down," said Waller in a recent webinar. "We need to move to a much more restrictive setting in terms of interest rates . . . and we need to do that as quickly as possible." After a speech at the Little Rock Regional Chamber in Arkansas, Bullard told reporters, "it would make a lot of sense to go with 75 bps at this juncture," which would bring the Fed's target range to 2.25–2.5 percent. U.S. Treasury yields were up across the curve last week. The 2-year, 5-year, 10-year, and 30-year rose 17 bps (to 3.01 percent), 14 bps (to 3.02 percent), 10 bps (to 2.98 percent), and 6 bps (to 3.17 percent), respectively.
- Markets rallied in the holiday shortened week as better-than-feared sentiment stemming from a number of areas—including easing commodity prices, a better-than-expected June employment report, and a stronger sales report from Samsung—appeared. Oil and copper were both down last week, posting drops of 3.4 percent and 2.2 percent, respectively. Friday's employment report showed 372,000 jobs added versus 265,000 expected, helping to lift consumer discretionary and financials, which have recently been softer due to demand and credit concerns. Samsung slightly beat top-line estimates with a 21 percent increase in revenue, easing fears about smart phone and broader chip demand. That said, the company did see notable pressure on margins as rising input costs continue to weigh on profitability. This report came just a week after Micron's warning about consumer tech hardware and demand from China. With earnings season about to kick off, we'll be provided with a slew of guidance updates over the coming weeks.
- On Wednesday, the ISM Services index for June was released. This measure of service sector confidence fell less than expected, dropping from 55.9 in May to 55.3 against forecasts for a steeper decline to 54. This is a diffusion index, where values above 50 indicate growth, so this result still signals continued expansion for the service sector. Confidence in the sector has remained in healthy expansionary territory since summer 2020; however, we've seen sentiment cool since the index set a record high of 68.4 in November 2021. Inflationary pressure and labor shortages have hurt confidence throughout the year. Even with these headwinds, however, service sector confidence is expected to remain in expansionary territory in the months ahead.
- Wednesday also saw the release of the FOMC minutes from the Fed's June meeting. The central bank raised the federal funds rate 75 bps at this meeting, the third consecutive gathering at which rates were hiked. The Fed's decision to raise the rate 75 bps instead of 50 bps was largely anticipated by markets because of the higher-than-expected level of consumer inflation in May, a concern also held by Fed members, according to meeting minutes. The Fed is expected to remain data dependent, with a focus on seeing sustained progress in tamping down inflationary pressure throughout the economy. The June inflation and jobs reports are expected to play major roles in shaping the Fed's decision at its July meeting, and the minutes indicate that the Fed could very well hike rates another 75 bps.
- We finished the week with Friday's release of the June employment report. The report showed that more jobs than expected were added during the month; 372,000 jobs were created against calls for 265,000. This better-than-expected result marks 18 consecutive months with strong year-over-year jobs growth, which is a good sign for the overall health of the economy. Gains were widespread, led by hiring in the business services and education and health sectors. The job market has remained impressively resilient over the past year and a half despite rising inflationary pressure as businesses have continued to hire to meet high levels of demand. Underlying data was also largely positive; the unemployment rate remained unchanged at 3.6 percent for the fourth consecutive month. Given the continued strength of the labor market and high levels of inflation throughout the economy, the Fed is expected to focus on slowing economic growth by tightening monetary policy throughout the year.

Market Index Performance Data

EQUITIES

| Index | Week-to-Date | Month-to-Date | Year-to-Date | 12-Month |
|-----------------------|--------------|---------------|--------------|----------|
| S&P 500 | 1.98 | 3.05 | -17.52 | -9.45 |
| Nasdaq Composite | 4.58 | 5.52 | -25.33 | -20.30 |
| DJIA | 0.82 | 1.87 | -12.84 | -8.37 |
| MSCI EAFE | 0.97 | 0.21 | -19.40 | -17.92 |
| MSCI Emerging Markets | 0.94 | 0.16 | -17.50 | -22.10 |
| Russell 2000 | 2.43 | 3.62 | -20.66 | -21.46 |

Source: Bloomberg, as of July 8, 2022

FIXED INCOME

| Index | Month-to-Date | Year-to-Date | 12-Month |
|-------------------|---------------|--------------|----------|
| U.S. Broad Market | -0.27 | -10.59 | -10.93 |
| U.S. Treasury | -0.55 | -9.64 | -9.95 |
| U.S. Mortgages | -0.15 | -8.91 | -9.33 |
| Municipal Bond | 1.15 | -7.93 | -8.12 |

Source: Morningstar Direct, as of July 8, 2022



What to Look Forward To

Wednesday will see the release of the June Consumer Price Index report. Consumer inflation is expected to increase in June, with headline prices set to rise 1.1 percent following a 1 percent increase in May. Consumer prices are expected to rise 8.8 percent on a year-over-year basis, up from 8.6 percent in May. If estimates hold, this would bring the pace of year-over-year consumer inflation to its highest level in more than 40 years. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to increase 0.6 percent during the month and 5.8 percent on a year-over-year basis in June compared to the 0.6 percent monthly and 6 percent year-over-year increases we saw in May. Overall, if estimates hold, this report would indicate that inflationary pressure remains high across the economy, and it would likely support another 75 bp hike at the Fed's meeting at the end of the month.

On Thursday, the June Producer Price Index report is set to be released. Producer prices are expected to increase 0.8 percent during the month and 10.4 percent on a year-over-year basis in June, following a 0.8 percent monthly increase in May and a 10.8 percent year-over-year increase during the month. If estimates hold, this would mark three consecutive months with slowing year-over-year producer price increases; however, it would still leave headline producer inflation at very high levels on a historical basis. Core producer prices, which strip out the impact of food and energy prices, are set to increase 0.5 percent, which would be in line with May's 0.5 percent increase in core prices. Producer inflation has been driven by supply chain issues and rising material and labor costs throughout the year. But, if we see a modest slowdown in headline producer prices, it would be a good sign that the Fed is starting to see minor signs of sustained success in its fight against inflation.

What to Look Forward To (continued)

On Friday, the June retail sales report is set to be released. Retail sales are set to increase 0.9 percent during the month following a 0.3 percent decline in May. If estimates hold, this would be the largest increase in monthly sales growth in three months. It would also be an encouraging sign that the lull in spending in May was temporary rather than the start of a sustained slowdown in spending growth. Part of the anticipated rebound in headline retail sales is due to rising gas prices in June. Core retail sales, which exclude the impact of auto and gas sales, are expected to remain flat for the month after increasing 0.1 percent in May. Consumer spending has remained relatively resilient throughout the year despite the challenges created by inflation and declining consumer confidence. Looking ahead, slower spending growth is anticipated as the Fed continues to tighten monetary policy to combat rising prices.

Friday will also see the release of the June industrial production report. Industrial production is expected to remain unchanged during the month following a downwardly revised 0.1 percent increase in May. If estimates hold, this would mark the first month without industrial production growth this year. Production has been supported throughout the year by high levels of demand for manufactured goods, but we've started to see signs that demand may be

softening, which, in turn, may serve as a headwind for significantly faster production growth in the months ahead. Additionally, rising economic uncertainty could lead to further pullbacks in production. This will be an important area to monitor throughout the second half of the year, as a slowdown in production could negatively affect efforts to cut down on inflation in the price of goods.

We'll finish the week with Friday's release of the preliminary estimates of the University of Michigan consumer sentiment survey for July. Consumer sentiment is set to decline during the month with economists calling for a modest drop from 50 in June to 49 to start July. If estimates hold, this would bring the index to a new record low and would mark three consecutive months with declining confidence. Consumer confidence has been challenged over the past year by rising prices, with inflation remaining a key concern for consumers. The shaky stock market and rising economic uncertainty have also weighed on consumer sentiment and contributed to the notable declines in the index. While the drop in confidence this year has not yet directly translated to a slump in consumer spending, weakening demand could serve as a headwind for faster sales growth in the future.

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.

Authored by the Investment Research team at Commonwealth Financial Network®

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