

WeeklyMarket Update



General Market News

- U.S. Treasury yields were down last week as expectations of a recession and a potential slowdown in rate increases from the Federal Reserve (Fed) were reflected in fixed income markets. Economic data releases suggested a slowing of the global economy. The housing sector showed signs of softening with the North American Homebuilders Index, housing starts, and existing home sales all coming in lower than expected. Initial jobless claims picked up; both Europe and the U.S. Purchasing Managers Index fell below 50, indicating expectations of economic contraction. The 2-year, 5-year, 10-year, and 30-year fell 15 basis points (bps) (to 2.99 percent), 18 bps (to 2.87 percent), 15 bps (to 2.78 percent), and 10 bps (to 3 percent), respectively.
- Global equity markets rallied last week, with bond yields coming down as central banks continue to examine policies to combat inflation. The softening data in the U.S. and Europe indicate inflation may be peaking and that central bank policy could be closer to the end of the tightening cycle. There were also sighs of relief in both U.S. and European markets. In the U.S., better-than-expected Tesla (TSLA) and Netflix (NFLX) earnings gave way for the potential for earnings to be more robust than initially expected. Thus far, the blended earnings growth rate for the S&P 500 sits at 4.8 percent versus 4.0 percent expected. In Europe, the Nord Stream pipeline was restarted on Thursday amid fears that Russia would shut gas off completely. That said, fears aren't completely gone with another turbine slated for maintenance on July 26. This week will bring a slew of large tech earnings, the second-quarter gross domestic product (GDP) estimate, and the July Federal Open Market Committee (FOMC) rate decision.
- On Tuesday, the June housing starts and building permits reports were released. Housing starts fell 2 percent against calls for a 2 percent increase, while permits dropped 0.6 percent against calls for a 2.7 percent decline. Although these reports can be volatile on a monthly basis, this marks two months in a row with declining starts and three consecutive months with falling permits. Despite the recent decline in new home construction, starts and permits remain well above pre-pandemic levels, supported by low levels of supply of existing homes for sale and rising housing prices. Looking ahead, most economists expect to see a further slowdown in the housing sector due to rising mortgage rates.
- Wednesday saw the release of the June existing home sales report. Sales of existing homes fell 5.4 percent against calls for a more modest 1.1 percent decline. This marks five consecutive months with declining existing home sales. Low supply, rising prices, and rising mortgage rates have served as headwinds for faster home sales this year. The recent slowdown in sales growth brought the pace of existing home sales to its slowest level since national shutdown measures expired in spring 2020, highlighting the current challenges for the housing market.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.57	4.73	-16.17	-8.88
Nasdaq Composite	3.33	7.32	-24.05	-19.68
DJIA	2.00	3.74	-11.24	-7.23
MSCI EAFE	4.43	2.81	-17.31	-15.57
MSCI Emerging Markets	3.00	-0.65	-18.16	-22.40
Russell 2000	3.59	5.84	-18.96	-17.24

Source: Bloomberg, as of July 22nd, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.79	-8.74	-9.47
U.S. Treasury	1.30	-7.96	-8.71
U.S. Mortgages	1.90	-7.04	-7.74
Municipal Bond	1.70	-7.43	-7.74

Source: Morningstar Direct, as of July 22nd, 2022



What to Look Forward To

Wednesday will see the release of the FOMC rate decision from the Fed's July meeting. The central bank is expected to hike the upper limit of the federal funds rate by 75 bps, which would boost the upper limit from 1.75 percent to 2.5 percent. The Fed, which started hiking rates in March, is expected to continue to increase rates throughout the rest of the year to try to combat high levels of inflationary pressure across the economy. Economists will also closely monitor the Fed's news release and postmeeting news conference for hints on the future path of monetary policy.

On Thursday, the advance estimate for annualized second-quarter GDP growth is set to be released. Economists expect to see that the economy grew at an annualized rate of 0.4 percent. If estimates hold, this would be a relatively encouraging rebound in economic activity after a 1.6 percent annualized GDP decline in the first quarter. Personal consumption growth is expected to increase 1.2 percent on an annualized basis, down from a 1.8 percent increase in the first quarter but still in healthy expansionary territory.

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®