AUGUST 1, 2022

Weekly Market Update

General Market News

- The Federal Reserve (Fed) raised interest rates by another 75 basis points (bps) at last week's FOMC meeting, bringing its target range to 2.25 percent to 2.50 percent. Inflation remains stubbornly high and conversation among market participants is becoming increasingly focused on the timing—rather than the likelihood—of a potential recession. Some believe the U.S. may already be in a recession after seeing two quarters of economic contraction as measured by gross domestic product (GDP). Others, including Fed Bank of Atlanta President Raphael Bostic, maintain hope that such a development can still be avoided if the job market remains robust. "I don't think the country is in a recession," Mr. Bostic said on NPR. "One of the things that I've been encouraged by is actually how strong the job growth has been, which suggests to me there's a lot of momentum in the economy." He added, "There's a lot of demand out there, and so I think we're a ways away from a recession." The U.S. Treasury yield curve saw some inversion last week. Treasury yields fell on the short to intermediate end of the curve with the 2-year, 5-year, and 10-year down 6 bps (to 3 percent), 11 bps (to 2.73 percent), and 4 bps (to 2.71 percent), respectively. The 30-year, however, was up 8 bps (to 3.06 percent).

- Equity markets rallied last week, supported by seemingly dovish Fed speak from FOMC Chairman Jerome Powell and better-than-expected second-quarter earnings reports from Apple (AAPL) and Amazon (AMZN). In recent months, we've heard from companies such as Micron (MU), Qualcomm (QCOM), and Apple about the impact of lockdowns in China on sales and parts availability. In April, Apple said it expected a $4 billion–$8 billion revenue hit during the second quarter. The hit was smaller than expected, with the company beating revenue and gaining 3 percent in iPhone revenue growth year-over-year. Amazon's earnings were bolstered by better-than-expected performance from its cloud and advertising segments. Cost cuts on the fulfillment side also showed the company's ability to adapt following massive e-commerce demand during the Covid-19 pandemic. While these two FAANG names helped ease broader growth, the biggest news last week was the 75 bps rate hike at the July meeting. Powell highlighted the need for the Fed to remain data dependent during the postmeeting press conference, which was seen as an easing from prior discussion about crushing inflation. This commentary led market participants to believe we may be close to the end of a Fed rate hike cycle, with the bond market pricing in cuts to the federal funds rate in March of 2023.

- On Wednesday, the FOMC rate decision from the Fed's July meeting was released. The Fed hiked the upper limit for the federal funds rate by 75 bps, raising the target from 1.75 percent to 2.5 percent. This action, the central bank's second consecutive 75 bps hike, designed to slow the pace of the economy and combat inflation, was widely expected by markets and economists. Looking ahead, the Fed is expected to continue to tighten monetary policy throughout the year; however, the pace of future rate hikes will be highly dependent on July and August inflation and jobs reports.

- On Thursday, the advance estimate for annualized second-quarter GDP growth was released. The report showed that the economy contracted at an annualized rate of 0.9 percent, which was worse than the consensus 0.4 percent increase that was expected. This marks two consecutive quarters with economic contraction, though this slowdown in growth is not expected to slow the Fed's tightening plans, given still-high levels of inflation throughout the economy. Personal consumption continued to show modest growth during the quarter, with consumption up 1 percent on an annualized basis against forecasts for a 1.2 percent increase.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	4.28	9.22	–12.58	–4.64
Nasdaq Composite	4.72	12.39	–20.47	–14.95
DJIA	2.97	6.82	–8.60	–4.14
MSCI EAFE	2.11	4.98	–15.56	–14.32
MSCI Emerging Markets	0.41	–0.25	–17.83	–20.09
Russell 2000	4.35	10.44	–15.43	–14.29

Source: Bloomberg, as of July 29, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	2.44	–8.16	–9.12
U.S. Treasury	1.59	–7.69	–8.69
U.S. Mortgages	3.21	–5.85	–6.69
Municipal Bond	2.64	–6.58	–6.93

Source: Morningstar Direct, as of July 29, 2022

What to Look Forward To

On Friday, the July employment report is set to be released. Economists expect to see that 250,000 jobs were added, far fewer than the 372,000 that were added in June but still strong on a historical basis.
The unemployment rate is expected to remain unchanged at 3.6 percent for the fifth consecutive month, which would tie the post-pandemic low. If estimates hold, this report would signal continued solid growth for the labor market, which, in turn, could help support the Fed's efforts to tighten monetary policy to rein in inflation in the months ahead.

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