Weekly Market Update

General Market News

- On Wednesday, the Federal Open Market Committee (FOMC) interest rate decision from the September 21–22 meeting was announced. The committee hiked the policy rate by 75 basis points (bps), bringing the upper limit of the target federal funds rate to 3.25 percent, which hasn't been breached since early 2008. This is the third consecutive rate increase of 75 bps as the Federal Reserve (Fed) continues its fight against inflation. The action was widely expected by markets and economists as the latest Consumer Price Index (CPI) report for August showed stubbornly high consumer prices, supporting the continuation of hawkish monetary policy. The FOMC's dot plot of members' future rate expectations was also released on Wednesday, showing nearly all committee members expect the central bank's rate to reach somewhere in the range of 4–4.5 percent by the end of 2022. Fed Chairman Jerome Powell has been setting the expectation that there is plenty more economic discomfort to endure before its job is complete, saying "We have got to get inflation behind us. I wish there were a painless way to do that. There isn't."
  U.S. Treasury yields were up across the curve last week. The 2-year, 5-year, 10-year, and 30-year rose 34 bps (to 4.21 percent), 37 bps (to 4 percent), 31 bps (to 3.76 percent), and 14 bps (to 3.66 percent), respectively.

- The equity market continued to feel pain as the Fed remains steadfast in its efforts to fight inflation. In his eight-minute speech last month, Chair Powell highlighted that there may be some short-term and this is what we've seen in the markets the last two weeks—particularly in small-caps and growth stocks since they are more susceptible to higher rates as higher costs of doing business lead to compression in valuations and future growth potential. Equity investors flocked to save haven areas in consumer staples, utilities, and health care as cyclical growth stories in energy, consumer discretionary, and REITs came under heavy selling.

- Aside from the key focus on Fed policy, there were also a number of releases related to housing and Purchasing Managers' Index (PMI) data. Key components of the housing data included building permits, housing starts, mortgage applications, and existing home sales. The data was mixed with disappointing building permits and better-than-expected existing home sales. Building permits fell 10 percent month-over-month in August, which was well below expectations for 4.7 percent. Housing starts, on the other hand, rose 12.2 percent over the same period. Weekly mortgage applications rose 3.8 percent while existing home sales fell by 0.4 percent in the month of August after falling 5.9 percent in July.

- Friday saw the release of the PMI for services, manufacturing, and the S&P Global U.S. Composite. The services PMI increased to 49.2 from 43.7, leaving the survey still in the contractionary camp below 50 but better than July. The manufacturing PMI moved up slightly to 51.8, from 51.5 in the prior month. Lastly, the S&P Global U.S. Composite came in at 49.3, up from 44.6 in August. The data shows an economy still facing headwinds in conditions but potentially easing for the month of September.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–4.63	–6.51	–21.61	–15.83
Nasdaq Composite	–5.06	–7.98	–30.13	–27.24
DJIA	–4.00	–6.01	–17.30	–13.24
MSCI EAFE	–5.60	–8.11	–26.10	–25.93
MSCI Emerging Markets	–4.03	–8.75	–24.70	–26.36
Russell 2000	–6.58	–8.83	–24.48	–24.33

Source: Bloomberg, as of August 26, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–3.36	–13.75	–14.08
U.S. Treasury	–2.76	–12.47	–12.66
U.S. Mortgages	–4.39	–13.05	–13.41
Municipal Bond	–2.91	–11.28	–11.09

Source: Morningstar Direct, as of August 26, 2022

What to Look Forward To

On Tuesday, we expect the release of the Conference Board Consumer Confidence Index for September. Consumer confidence rose in August after declining for three consecutive months, so it will be interesting to see where September's report stands. Inflation remains elevated, though expectations for longer-term inflation continue to moderate and offer light at the end of the tunnel. The index surprised to the upside in August, posting a 103.2 compared with predictions for a reading of 98. September's survey shows an expectation for a 104.5 reading. Although the absolute value of the index is helpful only when comparing current confidence levels to those of the 1985 base year (index, 1985 = 100), we rely on the month-over-month changes in the index's level as a directional indicator of consumer confidence.

Tuesday will also see the report on new home sales for August. Surveyed economists expect to see that 500,000 new single-family homes were sold over the month, compared with July's total of 511,000. That would be a 2.2 percent month-over-month decline, compared with the prior month-over-month decline of 12.6 percent. Although that points to expectations for a slowing decline, new home sales have been falling steadily since the December 2021 report came in at 839,000. This downward trend comes as mortgage rates continue to soar, with 30-year fixed rate loans approaching an average of 6.5 percent.

Authored by the Investment Research team at Commonwealth Financial Network.