Weekly Market Recap

June 21, 2022

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500® Index	3,675	-5.8%	-22.9%
Dow Jones Industrial Average	29,889	-4.8%	-17.7%
NASDAQ	10,798	-4.8%	-27.5%
Russell 2000® Index	1,666	-7.5%	-25.8%
MSCI EAFE Index	1,847	2.0%	-15.6%
Ten-year Treasury Yield	3.23%	0.1%	1.7%
Oil WTI[1] ($/bbl[2])	$108.8	-9.8%	44.7%
Bonds[3]	$100.40	-0.9%	-11.3%

[1]WTI = West Texas Intermediate Oil. [2]bbl = Barrel. [3]Bonds are represented by the iShares U.S. Aggregate Bond ETF. Sources: Bloomberg L.P.; FactSet.

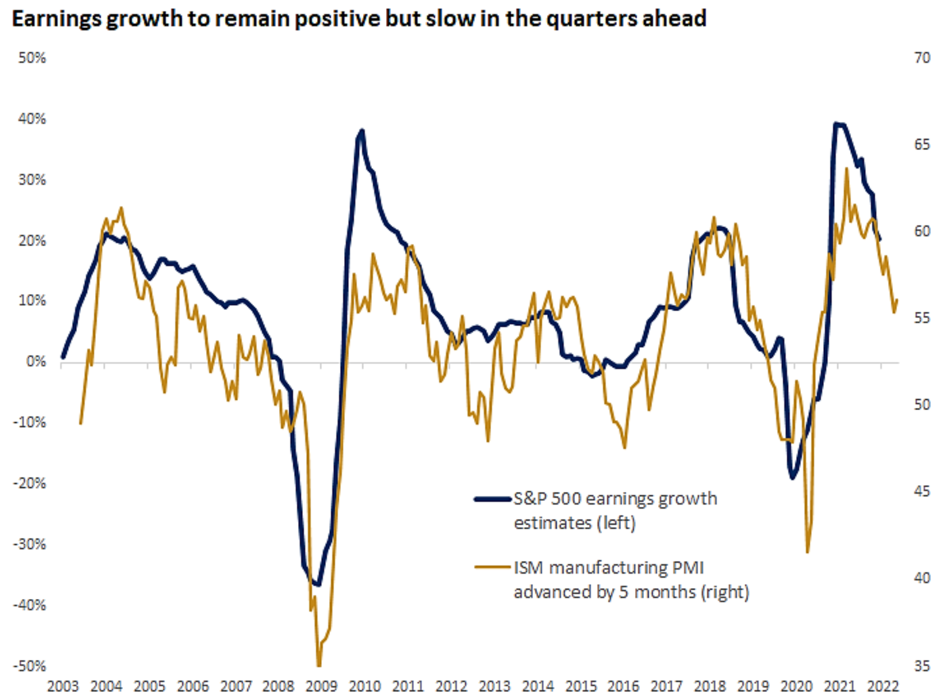
Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) fell -5.8% this week as the U.S. Federal Reserve hiked the short-term interest rate by 75 basis points (bps) as expected. Federal Reserve (Fed) Chair Powell said there could be a 50 or 75 bps hike in the July meeting and did not change market expectations for the long-term federal funds rate. However, markets appear increasingly concerned that the Fed will not be able to achieve a soft landing as recession fears increase. Futures markets are pricing in a ~90% chance of another 75 bps hike in July, with 50 bps hikes in both September and November before reaching a peak of 3.75-4.0% by February 2023, according to FactSet. Retail sales for May fell -0.3% month-over-month (m/m), missing consensus expectations for +0.2% growth and making it the first decline in five months. Treasuries were mixed with the curve flattening on a big rise in the front-end of the curve. The dollar was stronger, gold fell -1.8%, and West Texas Intermediate oil (WTI) fell -9.8%.

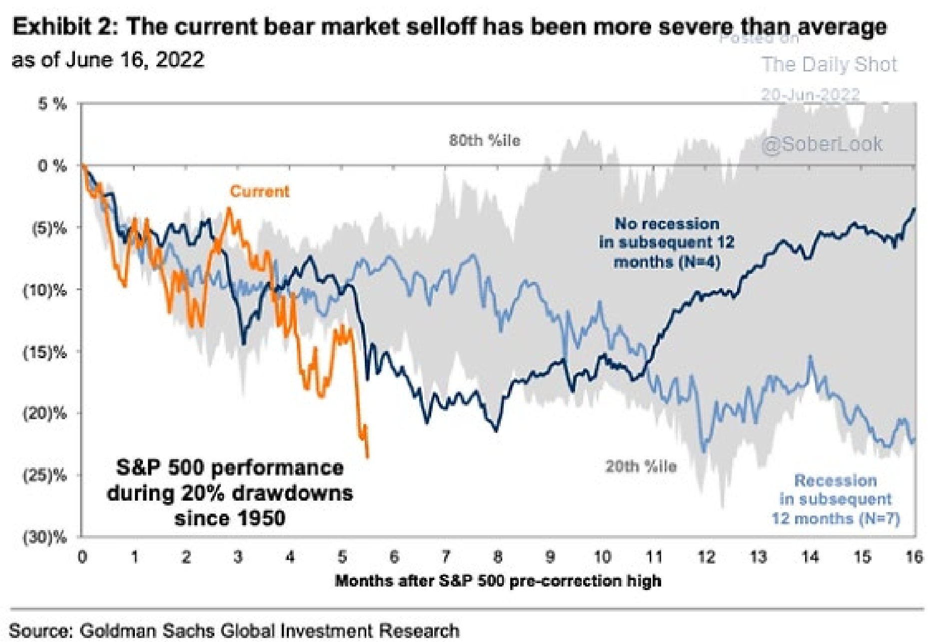
- S&P 500 Index Sector Returns (Price Return):
  - Consumer staples (-4.4%), healthcare (-4.5%), and real estate investment trusts (REITs) (-5.4%) outperformed, as investors favored more defensive stocks.
  - Communication services (-4.6%) outperformed, led by streaming and internet stocks.
  - Financials (-4.9%) fell, led lower by the banks.
  - Technology (-4.9%) fell, led lower by semiconductor and software stocks.
  - Consumer discretionary (-5.5%) fell, led lower by homebuilders and travel stocks.
  - Industrials (-5.8%) fell, led lower by airlines and defense stocks.
  - Materials (-8.3%) underperformed, led lower by building materials, industrial metals, and chemical stocks.
  - Utilities (-9.2%) underperformed, with broad weakness across the sector.
  - Energy (-17.2%) underperformed, as the price of WTI fell -9.8%.

- Earnings growth is expected to remain positive, but slow, during the next few quarters.



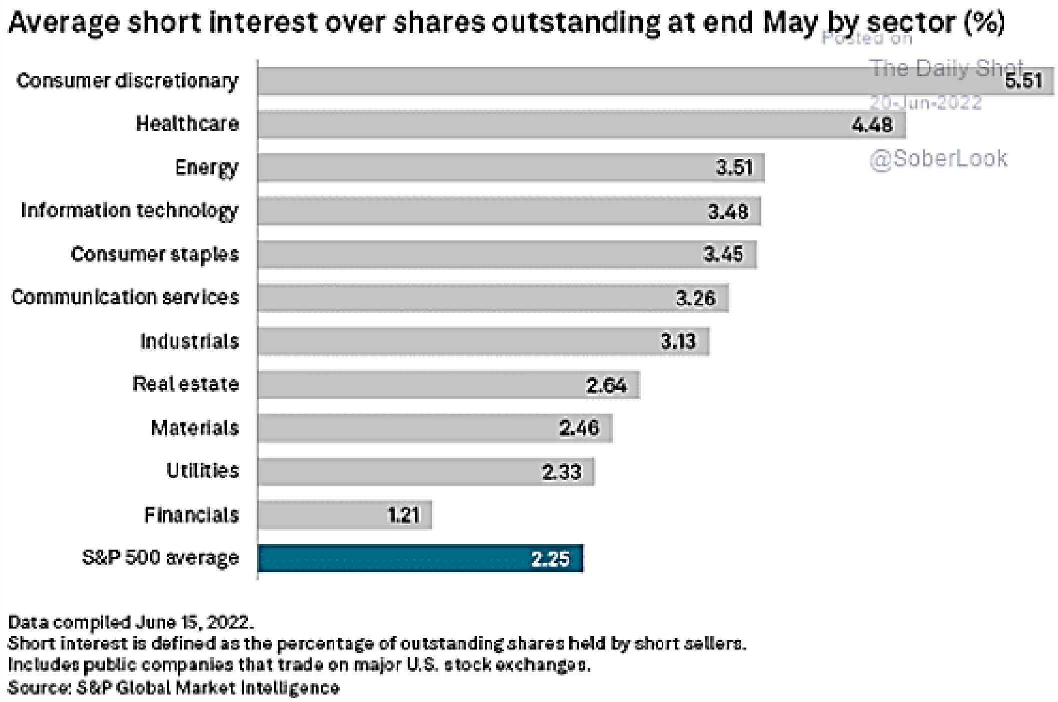
Source: Edward Jones

- Thus far, the severity of the current bear market, shown in the orange line below, has been more severe than the average bear market.



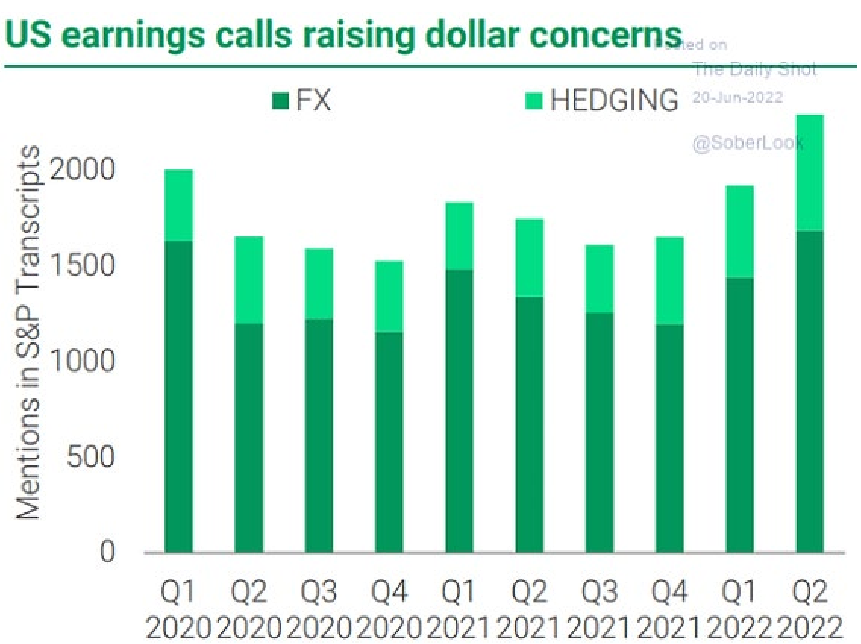
Sources: The Daily Shot; Goldman Sachs

- The consumer discretionary and healthcare sectors have the highest short interest (most investors are shorting the stocks), according to the S&P Dow Jones Indices.



Sources: The Daily Shot; S&P Dow Jones Indices

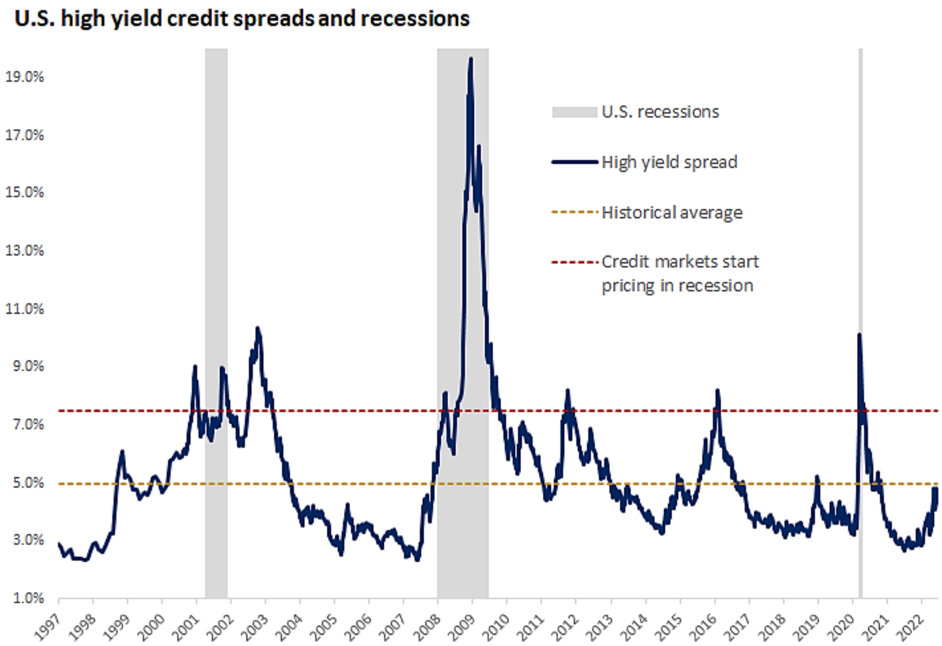
- The U.S. dollar strength can help offset inflationary pressures, but it is becoming a headwind for corporate earnings.



Sources: The Daily Shot; TS Lombard; Bloomberg L.P.

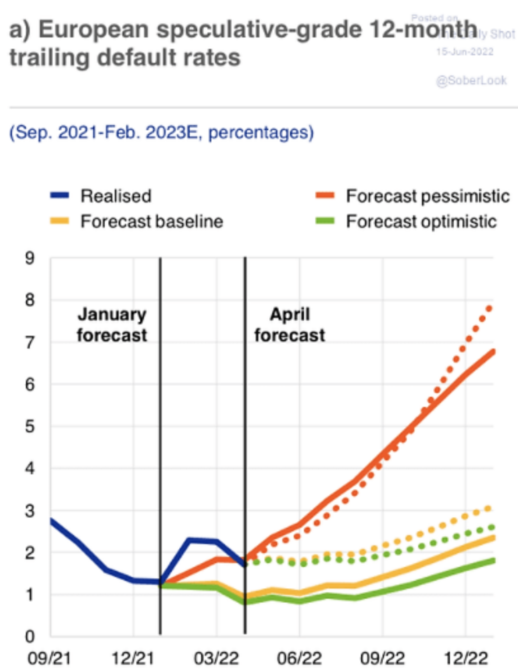
Fixed Income Markets

- High-yield corporate credit spreads (the extra premium of below-investment grade corporate bonds over lower risk government bonds) have widened to a near 15-month high, but at 5%, are only around their long-term historical average.



Source: Edward Jones.

- A weaker economic growth outlook and increasing margin pressures could lead to an increase in expected credit defaults in Europe, according to the European Central Bank (ECB).



Y-axis is the percentage of defaults of European high-yield bonds over the trailing 12 months.
Sources: The Daily Shot; European Central Bank

U.S. Economic and Political News

- Reuters reported that Wall Street believes a recession is more likely after this week's Federal Open Market Committee (FOMC) meeting, given the increased skepticism around a soft landing and highlighting some analyst calls forecasting rate cuts as soon as mid-2023.
- Bank of America analysts said they now expect gross domestic product (GDP) growth to fall to zero, inflation to settle around 3%, and the Fed to raise rates above 4%.
- Retail sales for May fell -0.3% m/m, missing consensus for +0.2% growth and leading to the first decline in five months.
- Piper Sandler economists also warned that U.S. consumer spending could drop even further in the months ahead given 6%+ mortgage rates, gasoline prices, household savings falling near the lowest levels since 2008, and credit card debt hitting a record high.

International Markets and News

- The Chinese stock market (Shanghai Composite) rose +1.0%, as China's state planner approved ten fixed asset investments worth CNY 121B (USD $18.1B) in May, a more than six-fold increase from April.
  - Sentiment for equities also received a boost after data showed surprising growth in industrial production in May, and from hopes of increased policy support following weak housing market data.
- European markets (STOXX 600 Index) fell -4.6%, as the ECB held an unscheduled meeting and stated it would take action to stem the widening yield spreads between member states sovereign bond yields.
  - The Swiss central bank hiked interest rates by +0.50% to -0.25% in an effort to subdue inflation. They stated that its inflation forecasts have increased substantially, which could lead to further rate hikes.
  - The Bank of England raised rates for the fifth time to +1.25% from +1.0%.
- Japanese equities (Nikkei 225 Index) fell -6.7%, as the U.S. and other central banks raised interest rates and tightened monetary policies. The Bank of Japan continued to maintain its ultralow interest rates at -0.1% and said it would conduct daily purchases of ten-year Japanese Government Bonds (JGBs) at a yield of 0.25%.

This Week:

- Corporate earnings reports will be light this week.
- U.S. Economic data:
  - Monday: Limited data;
  - Tuesday: Retail sales (m/m: CAN), Retail Sales ex-Autos (CAN), Existing Home Sales, Redbook Chain Store, API Crude Inventories;
  - Wednesday: MBA Mortgage Purchase Applications, Core Inflation (m/m; CAN), CPI (m/m: CAN);
  - Thursday: Current Account Balance, Flash Manufacturing PMI, Flash Services PMI, Initial/Continuing Claims, Natural Gas Inventories, and DOE Crude Inventories;
  - Friday: Michigan Consumer Sentiment (Final), New Home Sales.

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
Executive Director

Griffith Jones, Jr.
Executive Director

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Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depositary receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

The NASDAQ-100 Index includes 100 of the largest domestic and international non-financial companies listed on The NASDAQ Stock Market based on market capitalization. The Index reflects companies across major industry groups including computer hardware and software, telecommunications, retail/wholesale trade and biotechnology. It does not contain securities of financial companies including investment companies.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

The S&P 500® Buyback Index is designed to measure the performance of the top 100 stocks with the highest buyback ratios in the S&P 500.

The Credit Default Swap Index (CDX), formerly the Dow Jones CDX, is a benchmark financial instrument made up of credit default swaps (CDS) that have been issued by North American or emerging market companies.

Technical Terms: **Gross domestic product (GDP)** is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period. As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health. A **Japanese Government Bond (JGB)** is a bond issued by the government of Japan. The government pays interest on the bond until the maturity date. At the maturity date, the full price of the bond is returned to the bondholder. Japanese government bonds play a key role in the financial securities market in Japan. (Technical definitions are sourced from Corporate Finance Institute.)

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