

Weekly Market Recap

June 27, 2022

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500® Index	3,912	6.4%	-17.9%
Dow Jones Industrial Average	31,501	5.4%	-13.3%
NASDAQ	11,608	7.5%	-25.8%
Russell 2000® Index	1,766	6.0%	-21.4%
MSCI EAFE Index	1,837	0.8%	-21.3%
Ten-year Treasury Yield	3.13%	-0.1%	1.6%
Oil WTI ¹ (\$/bbl ²)	\$107.59	-0.4%	43.1%
Bonds ³	\$101.04	0.7%	-10.5%

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

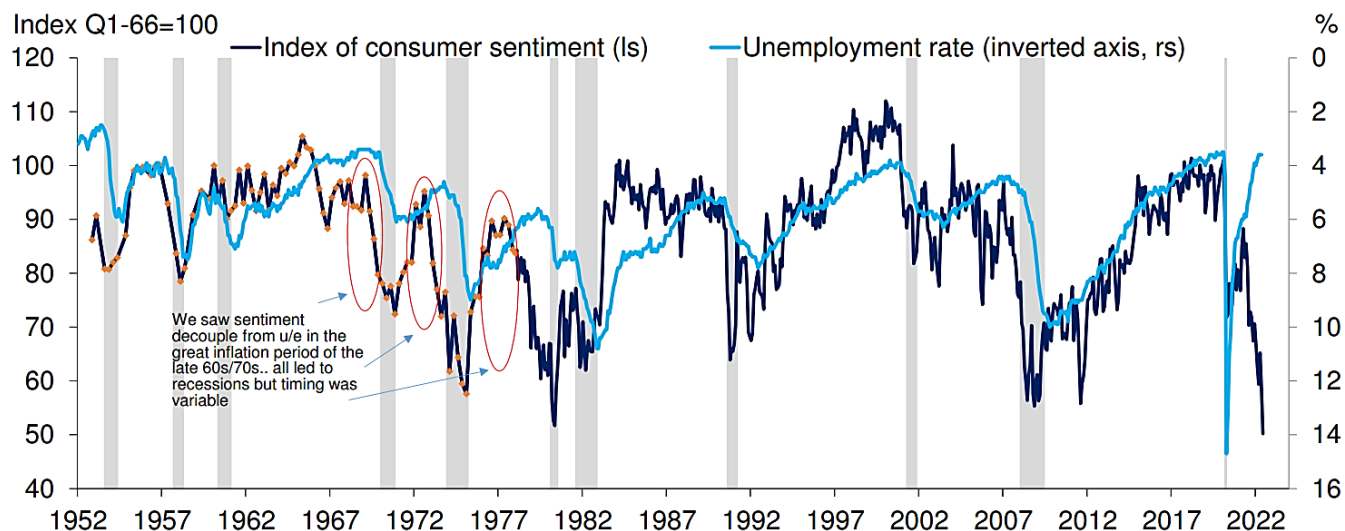
Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) rose 6.4% this week, with several Wall Street strategists calling the rally an oversold bounce following the nearly 6.0% drop from the prior week. Fed Chair Powell delivered his semi-annual testimony to Congress this week, which was consistent with the commitment to reduce inflation. He did caution that further upside surprises could be in store, and conceded that the Federal Reserve hikes could provoke a recession. He suggested that the endpoint of the Fed's balance sheet drawdown may be \$2.5-\$3T below today's ~\$9T level. May housing data was mixed, with existing-home sales falling month-over-month (m/m), but not as fast as expected, and May new-home sales picked up. Treasury yields dropped, the dollar was weaker, gold declined -0.6%, and WTI fell a modest -0.4% after dropping -10.5% in the previous week.
- S&P 500 Index Sector Returns (Price Return):
 - Consumer discretionary (+8.3%) rose, led by Amazon (+9.6%), autos, homebuilders, and travel stocks.
 - Healthcare (+8.2%), real estate investment trusts (REITs) (+7.8%), utilities (+7.2%), and consumer staples (+6.6%) outperformed, as investors favored more defensive stocks.
 - Technology (+7.3%) rose, led by software and high-growth/high-multiple stocks.
 - Communication services (+7.0%) outperformed, led by social media, internet, and streaming stocks.
 - Financials (+5.1%) underperformed, as banks lagged the broad market.
 - Industrials (+4.2%) underperformed, with weakness from airlines and defense stocks.
 - Materials (+2.7%) underperformed, with weakness from precious metals equities.
 - Energy (-1.6%) underperformed, as the price of WTI fell -0.4%.

- Historically, U.S. consumer sentiment and the inverted unemployment rate has been highly correlated. However, the current unemployment rate is extremely low (inverted is extremely high), and the consumer sentiment index is extremely low.

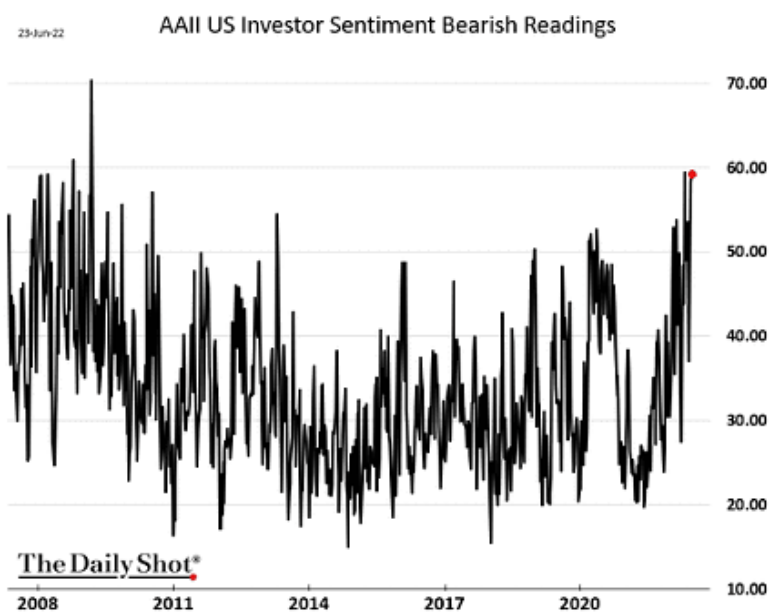
Figure 1: US Cons. sentiment vs unemployment rate - a huge decoupling..



Source : University of Michigan, BLS, Haver Analytics, Deutsche Bank

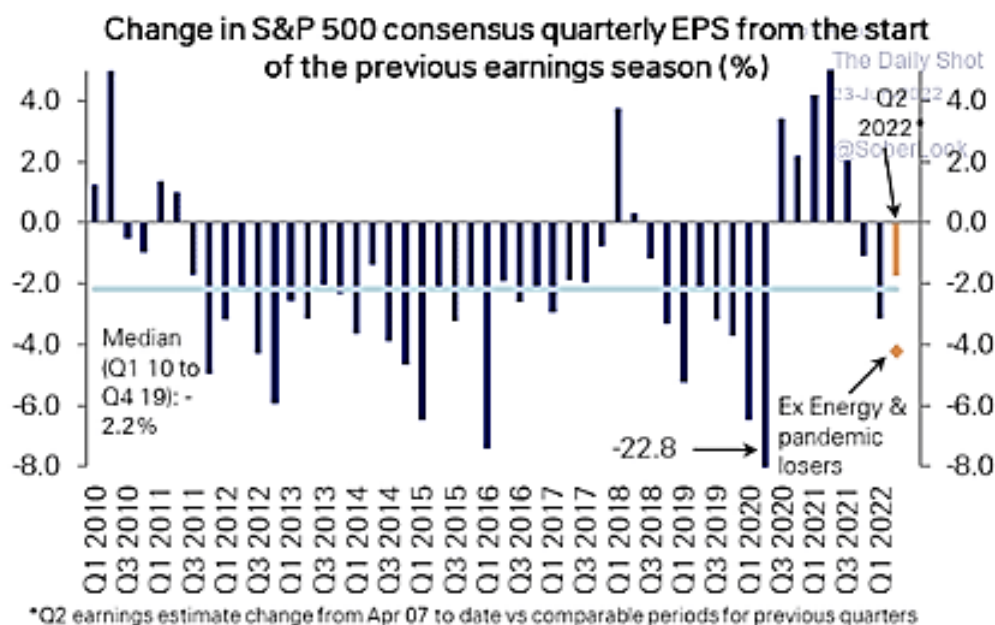
Source: Deutsche Bank.

- The current U.S. investor sentiment Bearish Readings are near 2008/2009 financial crisis levels. Could this be a contrarian data indicator?



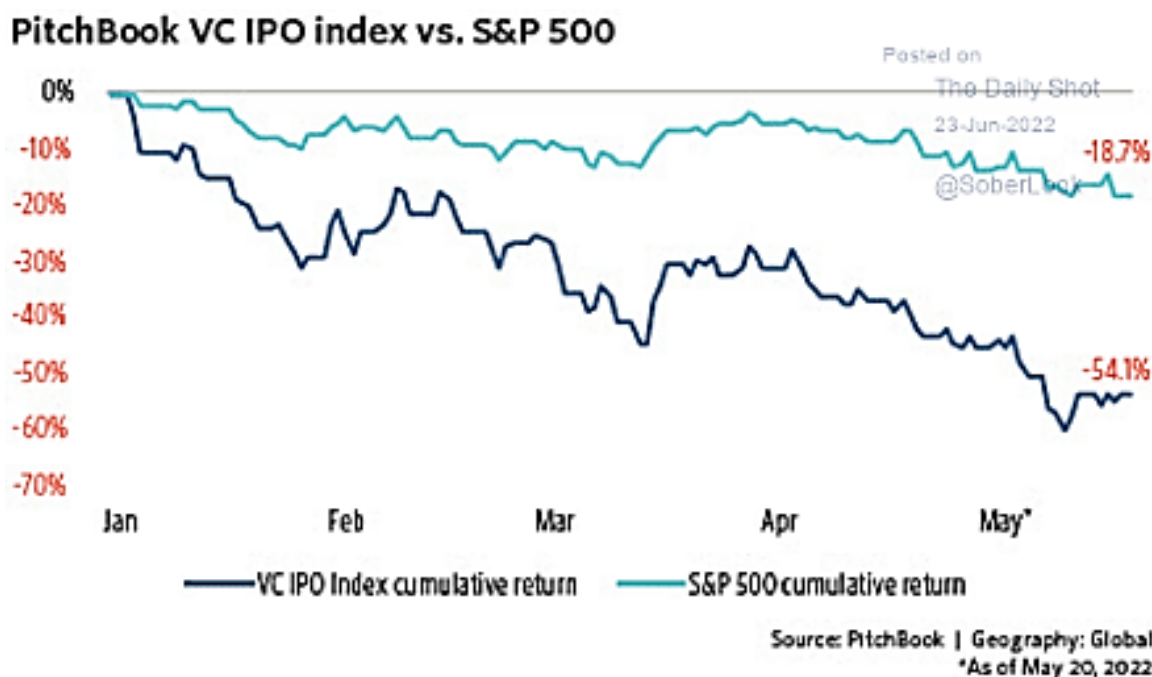
Sources: The Daily Shot; Goldman Sachs.

- The recent earnings downgrades have been significant, especially when excluding energy and companies negatively impacted by the COVID-19 crisis.



Sources: The Daily Shot; Deutsche Bank.

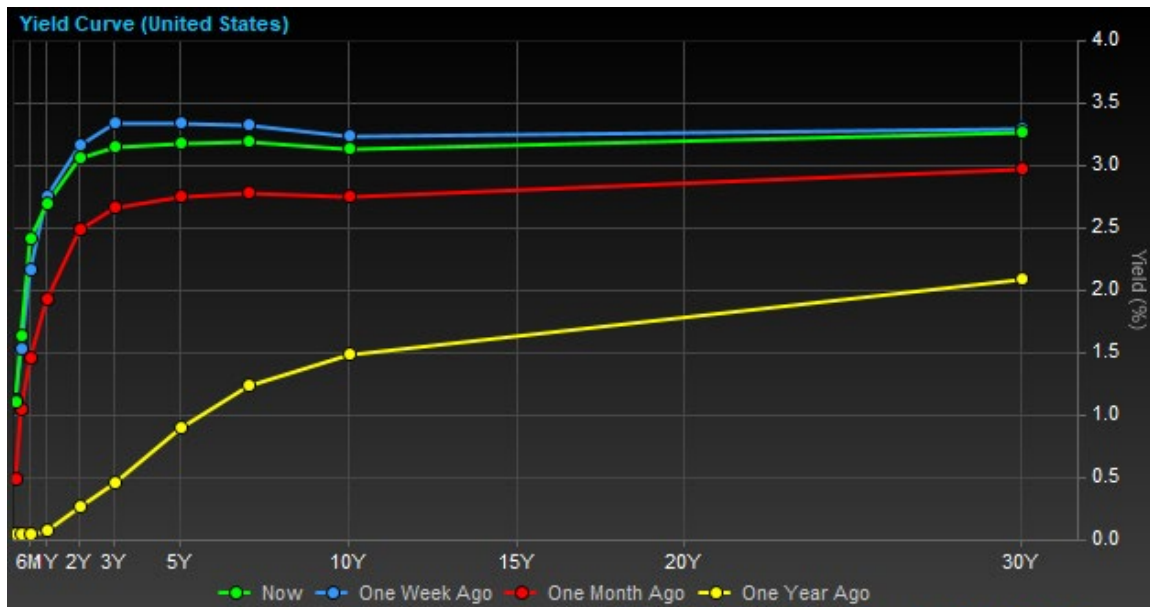
- Previously publicly-traded venture-backed companies have significantly underperformed relative to the S&P 500 Index in 2022.



Sources: The Daily Shot; PitchBook.

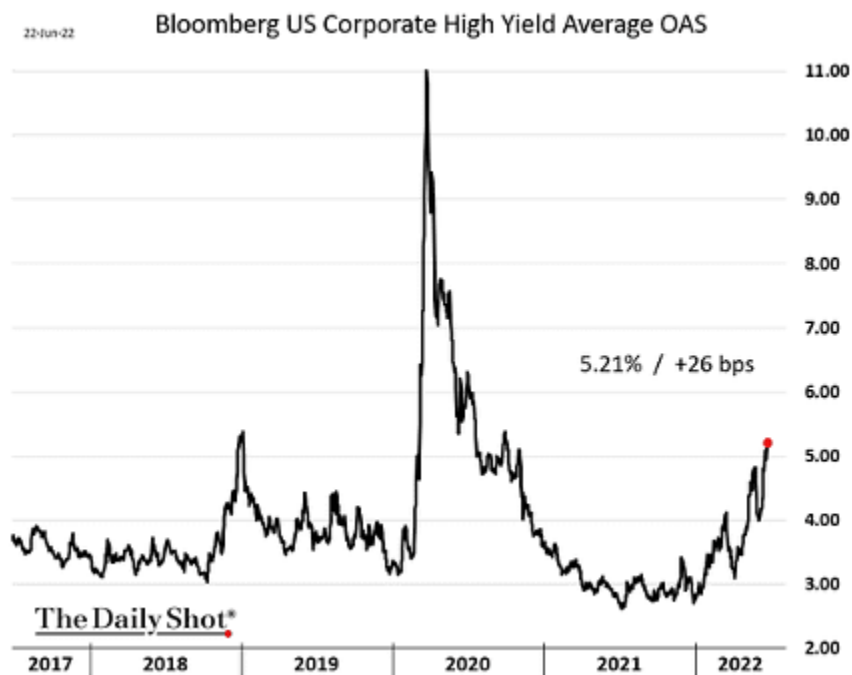
Fixed Income Markets

- The two-year, three-year, five-year, and ten-year Treasury yields all declined this week.



Source: The Daily Shot.

- The Bloomberg U.S. Corporate High Yield Average option-adjusted spread (OAS) continues to rise in 2022. The OAS measures the spread of the bond or bond index and the risk-free rate of return, which is then adjusted to take into account an embedded option.



Sources: The Daily Shot; Bloomberg.

U.S. Economic and Political News

- The final readout of the University of Michigan consumer sentiment survey came in for outsized attention after Chair Powell mentioned the preliminary read at the June Federal Open Market Committee (FOMC) meeting. The headline data continued to move lower, but there were slightly softer readings for one-year and five-year inflation expectations.
- Weekly initial jobless claims were above consensus expectations, but remained in their recent range.
- June's flash Markit U.S. Composite Purchasing Managers Index (PMI) missed expectations, as manufacturing saw the first contraction in new orders since July 2020, while services showed the steepest drop in client demand in more than two years.

International Markets and News

- The Chinese stock market (Shanghai Composite) rose +1.0%, as President Xi Jinping pledged to increase stimulus measures to support the economy and minimize the impact of COVID-19.
 - The People's Bank of China (PBOC) injected seven-day reverse repos, totaling CNY 60 billion into the financial system.
- European markets (STOXX 600 Index) rose +2.4%, as weaker than expected PMI readings sparked fears of an economic slowdown, but also reduced market expectations for monetary policy tightening.
 - Norway's central bank raised interest rates by a larger-than-expected 50 basis points (bps) to 1.25%.
 - Germany moved to the second 'alarm stage' of its emergency plans to reduce gas consumption and increase storage inventories of thermal fuel after Russia further reduced pipeline flows.
 - In addition, Germany, Austria, and Romania moved to reopen some coal plants for electricity generation.
- Japanese equities (Nikkei 225 Index) rose +2.0%, as investors expect the Bank of Japan to maintain its ultralow interest rates despite a June PMI report that showed a strong expansion in business activity.

This Week:

- Corporate earnings reports will be light this week.
- U.S. Economic data:
 - Monday: Core Durable Orders, Durable Orders ex transport, Durable Orders, Pending Home Sales;
 - Tuesday: Wholesale Inventories, FHFA House Price Index, Case-Shiller Home Price Index, Consumer Confidence, Redbook Chain Store, API Crude Inventories;
 - Wednesday: MBA Mortgage Purchase Applications, GDP Chain Price (second revision), GDP (second revision), DOE Crude Inventories;
 - Thursday: Core PCE, Personal Spending, Personal Income, GDP m/m (Canada), Chicago PMI, Initial Jobless/Continuing Claims, EIA Natural Gas Inventories;
 - Friday: Manufacturing PMI, Construction Spending, ISM Manufacturing Index.

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 depository 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: **The Purchasing Managers' Index (PMI)** is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting. The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors. (Technical definitions are sourced from Corporate Finance Institute.)

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