

Weekly Market Recap

August 8, 2022

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500® Index	4,145	0.4%	-13.0%
Dow Jones Industrial Average	32,803	-0.1%	-9.7%
NASDAQ	12,658	2.2%	-19.1%
Russell 2000® Index	1,922	1.9%	-14.4%
MSCI EAFE Index	1,942	0.2%	-16.9%
Ten-Year Treasury Yield	2.84%	0.2%	1.3%
Oil WTI ¹ (\$/bbl ²)	\$88.37	-10.4%	17.5%
Bonds ³	\$102.71	-1.3%	-7.9%

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

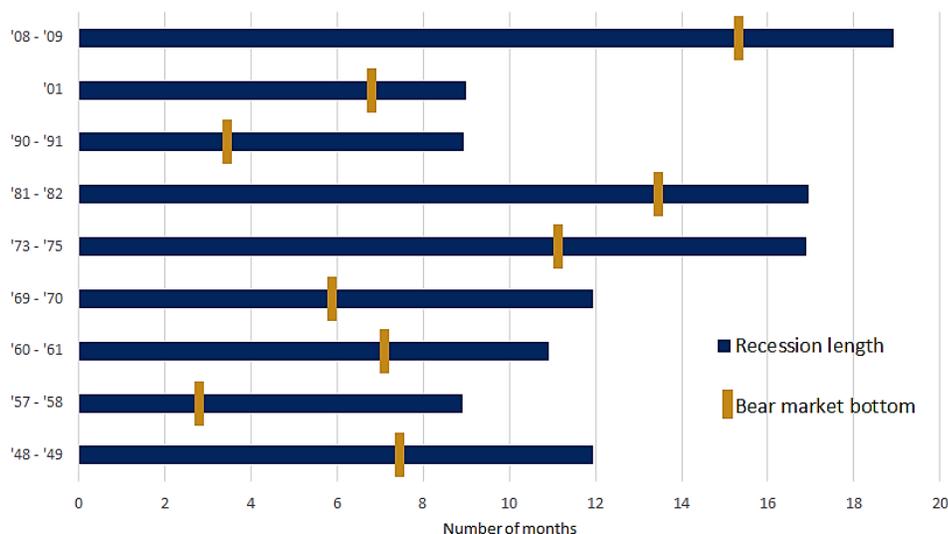
Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) rose +0.4%, despite Federal Reserve (Fed) speakers pushing back on the notion that there may be a dovish policy pivot ahead. Friday's nonfarm payrolls report was unexpectedly strong, with 528k jobs created in July (above expectations for 250k). Despite recent announcements of layoffs and hiring slowdowns, the unemployment rate returned to pre-pandemic levels for July. Contrary to the Fed talk, July's Institute for Supply Management (ISM) manufacturing report came in at its lowest level since June 2020, and prices-paid declined the most since May 2017. S&P 500 corporate earnings remained above expectations with the blended earnings growth rate of 6.7% (better than expectations for 4.0%). Treasury yields were quite volatile with the ten-year yield dropping as low as 2.50% on Tuesday before finishing the week at 2.84%. The dollar index was strong, gold rose +0.5%, and WTI fell -10.4%.
- S&P 500 Index Sector Returns (Price Return):
 - Technology (+2.0%) rose, led by semiconductor, cloud, and software stocks.
 - Consumer discretionary (+1.2%) rose, led by **Amazon** (+4.3%), retail, and travel equities.
 - Communication services (+1.2%) rose, led by Meta (+5.0%), entertainment, and media stocks.
 - Industrials (+0.6%) rose, with strength in airlines.
 - Utilities (+0.4%) rose, led by NextEra (+4.1%), American Electric Power (+0.9%), and Dominion Energy (+0.7%).
 - Consumer staples (+0.1%), Healthcare (-0.7%), and real estate investment trusts (REITs) underperformed, as investors favored less defensive stocks.
 - Financials (-0.1%) underperformed, with mixed performance from banks and weakness from property and casualty insurers.
 - Materials (-1.3%) fell, with weakness from precious metals and commodity chemical stocks.
 - Energy (-6.8%) fell, with the price of WTI declining -10.4%.

- The equity markets are a leading indicator, and the chart below shows that historically, equity markets bottom before the recession ends. This data suggests that the optimal entry points for equity investors has historically been before the recession ends. The average recession has lasted about 12 months (ranging from two to nineteen), but the average bear market ended on month seven (ranging from one to fifteen).

Bear markets bottom before the end of recessions



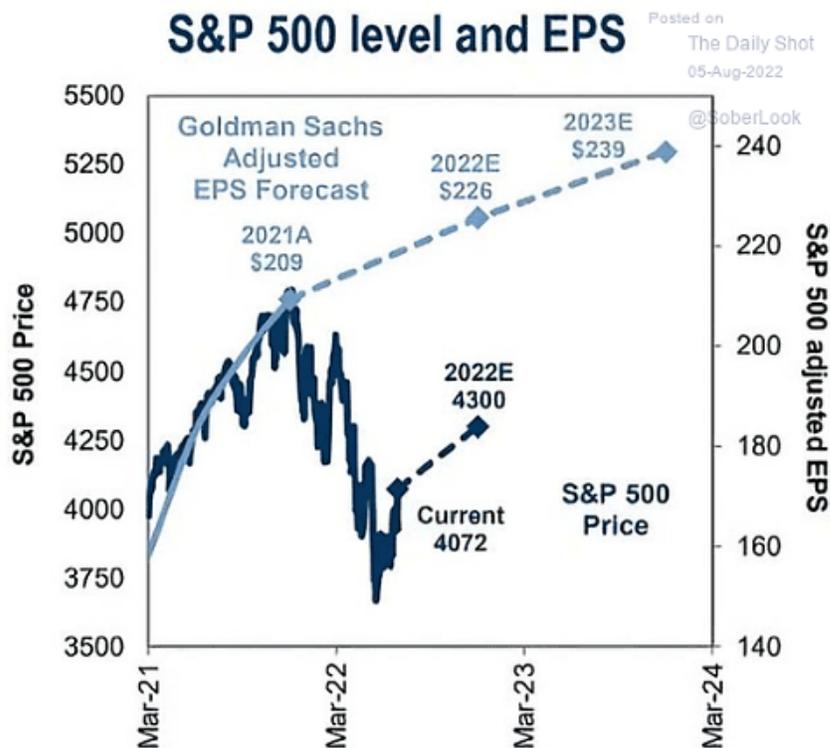
Sources: Edward Jones; FactSet.

- According to Stifel, the S&P 500 Index has experienced a 'triple waterfall' of shock, acceptance, and capitulation.



Sources: The Daily Shot; Stifel Research.

- Goldman Sachs expects the S&P 500 Index to reach 4300 by the end of 2022 and estimates that S&P 500 earnings will continue to grow at a slower but healthy pace.

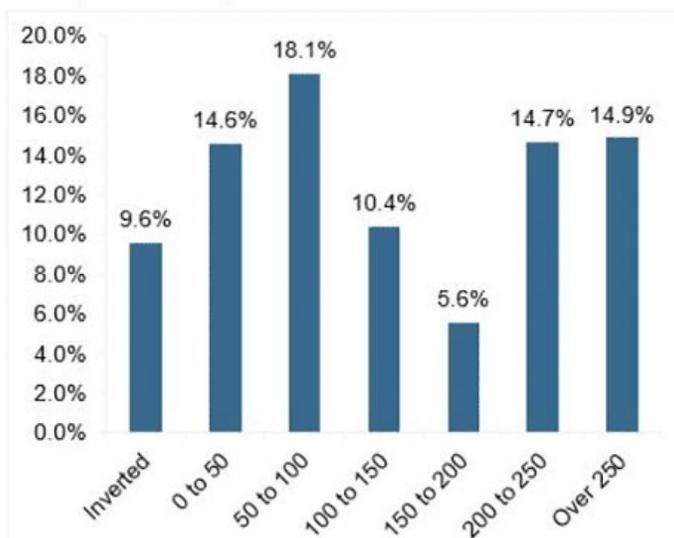


Sources: The Daily Shot; Goldman Sachs.

- Despite negative sentiment associated with an inverted yield curve (two-year yield exceeds ten-year yield), the S&P 500 Index has generated an average +9.6% return one year after a yield curve inversion.

Total Return & the Yield Curve S&P 500 Forward 1 Year Total Return Percent

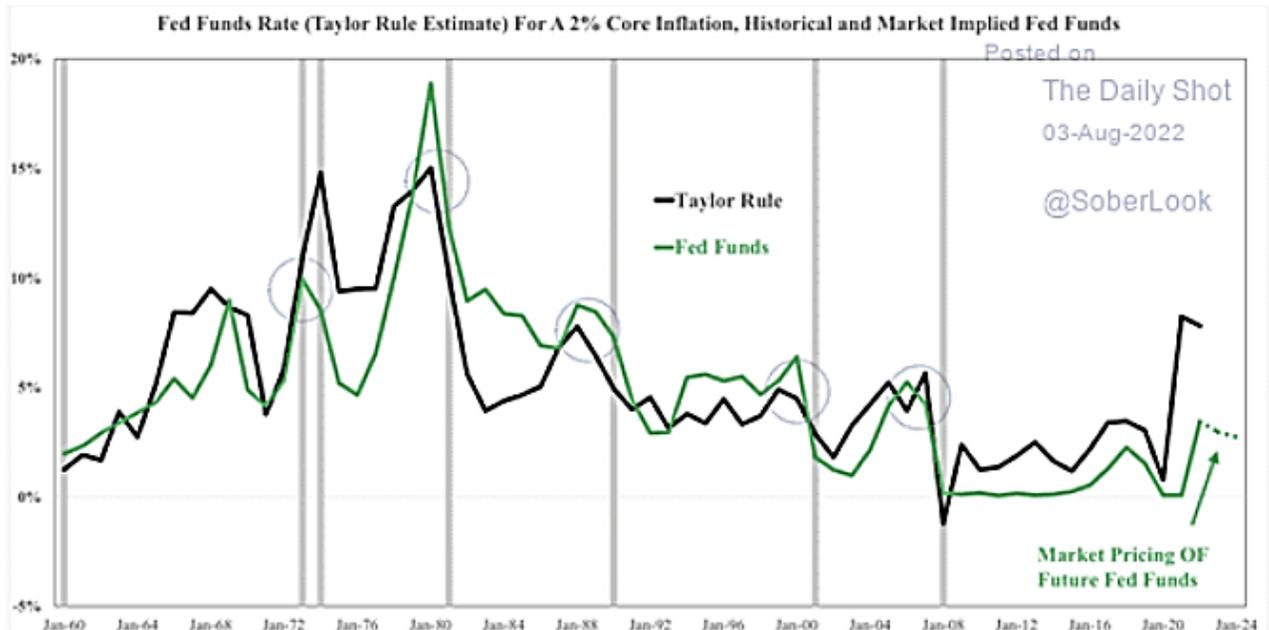
10s/2s, 1976-Present, in Various Yield Curve Scenarios @SaberLook



Sources: The Daily Shot; Fidelity Investments.

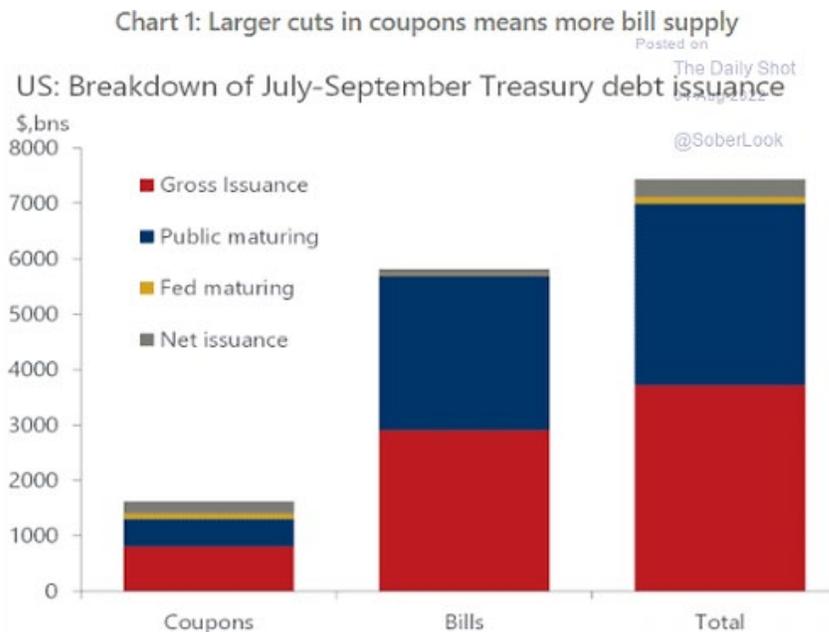
Fixed Income Markets

- The futures markets are pricing in Federal Reserve rate cuts in 2023.



Sources: The Daily Shot; SOM Macro Strategies.

- Treasury bill issuance is expected to increase in the third quarter.



Sources: The Daily Shot; Oxford Economics.

U.S. Economic and Political News

- July's ISM manufacturing report came in at its lowest level since June 2020, but there was also a big decline in its prices-paid component. For the ISM services report, the prices-paid slide was its largest since May 2017.
- The employment components of these indices also remained in contractionary territory, and initial jobless claims continued to rise off its April trough, seemingly at odds with the nonfarm payrolls report (528k jobs created in July, well above expectations for 250k).

International Markets and News

- The Chinese stock market (Shanghai Composite) fell -0.8% as Nancy Pelosi's trip to Taiwan infuriated Beijing, which held live-fire drills in the waters around the self-ruled island and imposed sanctions on Pelosi and her immediate family.
 - Chinese semi-conductor (chip producers) rallied as investors expect the Chinese government to increase their support for the local industry. At the same time, the U.S. Congress passed the CHIPS and Science Act, which aims to prop up the U.S. semiconductor industry and contains restrictions on chip firms considering expanding into China.
- European markets (STOXX 600 Index) fell -0.6%, as investor sentiment weakened on expectations that central banks would continue to raise interest rates aggressively in order to reduce inflation.
 - The Bank of England raised interest rates by 50 basis points (bps) to 1.75%, the largest increase in 27 years, and also projected inflation to hit 13.3% by October because of elevated energy prices.
- Japanese equities (Nikkei 225 Index) rose +1.4% as domestic corporate earnings were above expectations, with export-oriented Japanese companies benefitting from a weaker Yen.

This Week:

- Corporate earnings reports will be light this week.
- U.S. Economic data:
 - Monday: Limited economic data;
 - Tuesday: NFIB Small Business Index, Unit Labor Costs (preliminary), Productivity (preliminary), Redbook Chain Store, API Crude Inventories;
 - Wednesday: MBA Mortgage Purchase Applications, CPI ex Food, Energy, CPI, Treasury Budget, Hourly Earnings, Wholesale Inventories, DOE Crude Inventories;
 - Thursday: PPI ex Food, Energy, PPI, Initial Claims EIA Natural Gas Inventories;
 - Friday: Export Prices, Import Prices, Michigan Consumer Sentiment (Preliminary).

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.

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