Weekly Market Recap

September 19, 2022

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500® Index	4,067	-4.8%	-18.7%
Dow Jones Industrial Average	32,152	-4.1%	-15.2%
NASDAQ	12,112	-5.5%	-22.6%
Russell 2000® Index	1,810	-4.5%	-20.0%
MSCI EAFE Index	1,839	0.8%	-21.3%
Ten-year Treasury Yield	3.45%	-1.3%	-13.4%
Oil WTI[1] ($/bbl[2])	$86.10	-0.9%	14.5%
Bonds[3]	$98.83	-1.2%	-12.8%

[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:

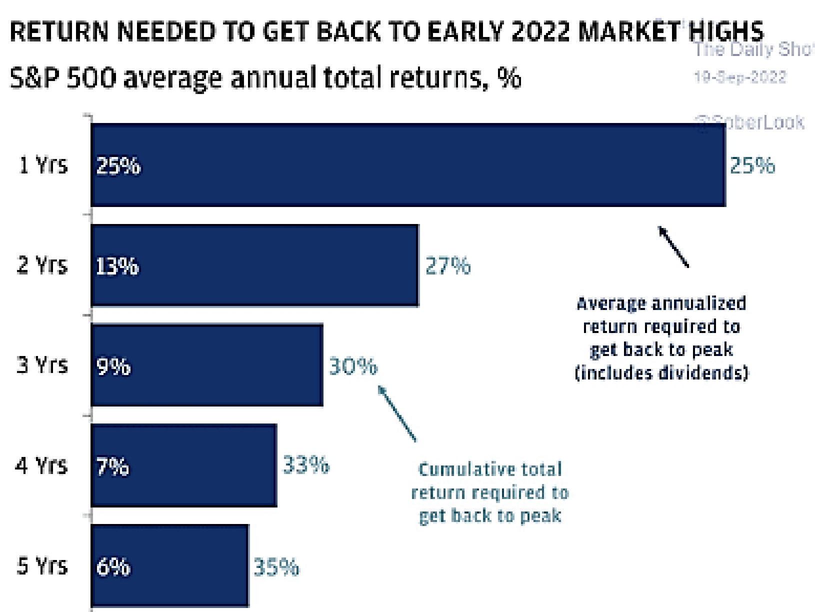
U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) fell -4.8% as equity investors were in risk-off mode, with a higher-than-expected August Consumer Price Index (CPI) report (+0.1% month-over-month vs. -0.1%) on Tuesday, leading to a large selloff, the worst one-day decline for the S&P 500 Index since June 2020. The hot CPI report raised fears that the Federal Reserve (Fed) will be more aggressive with raising interest rates to push inflation down, delaying a potential dovish pause or pivot. The World Bank warned that aggressive tightening may lead to a global recession, Q3 gross domestic product (GDP) estimates are declining, and surveys show an ongoing waning of CEO confidence, according to FactSet. The ten-year yield increased 14 basis points (bps) to 3.5% and the Treasury curve remained inverted. The dollar index was up +0.6%, gold was down -3.0%, and WTI fell -0.9%.
- S&P 500 Index Sector Returns (Price Return):
  - Healthcare (-2.4%), consumer staples (-3.6%), and utilities (-3.8%) outperformed, as investors favored more defensive stocks.
  - Energy (-2.6%) fell as the price of WTI declined -0.9%.
  - Financials (-3.8%) fell, led lower by banks.
  - Consumer discretionary (-4.2%) fell, led lower by apparel, homebuilders, and **Amazon** (-7.3%),
  - Technology (-6.1%) fell, led lower by software and high-valuation stocks.
  - Industrials (-6.4%) fell, with weakness in railroad and building product stocks.
  - Communication services (-6.4%) fell, led lower by social media and internet equities.
  - Real estate investment trusts (REITs) (-6.5%) underperformed, led lower by data centers and cell towers.
  - Materials (-6.7%) underperformed, with weakness in chemical and industrial metals companies.

- Research from Goldman Sachs supports the narrative for an equity market rebound by the end of 2022, assuming S&P 500 earnings remain on a healthy path of modest growth.

Sources: The Daily Shot; Goldman Sachs.

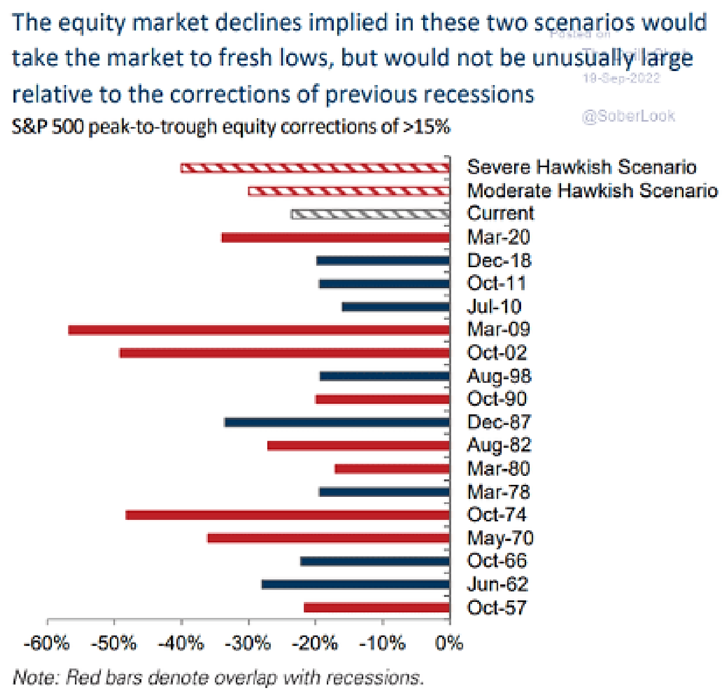
- The chart below shows the return needed for the S&P 500 Index to recover from the market close last Thursday to the previous market high on January 3 of this year.



Sources: JP Morgan; The Daily Shot.

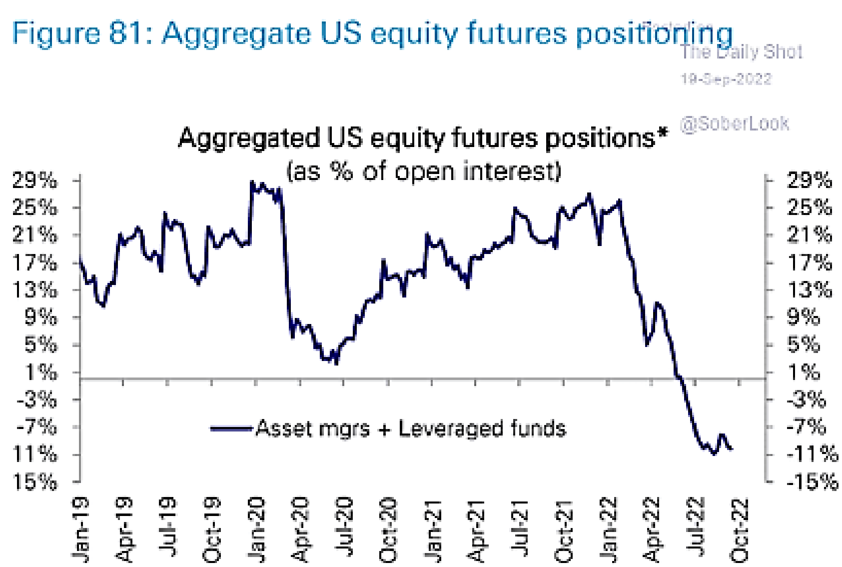
Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Please reference important disclosures on page 7.

- Goldman Sachs research suggests that *if* the Federal Reserve were to implement a 'severe hawkish scenario' or a 'moderate hawkish scenario,' then the S&P 500 Index would likely drop below the mid-June lows. However, these two potential corrections would not be unusually large relative to the corrections in previous recessions.



Sources: Goldman Sachs; The Daily Shot.

- Aggregate U.S. equity futures positioning is more bearish now than in March and April of 2020 (during the COVID-19 crisis). Overly bearish positioning/sentiment can historically be a contra-indicator.



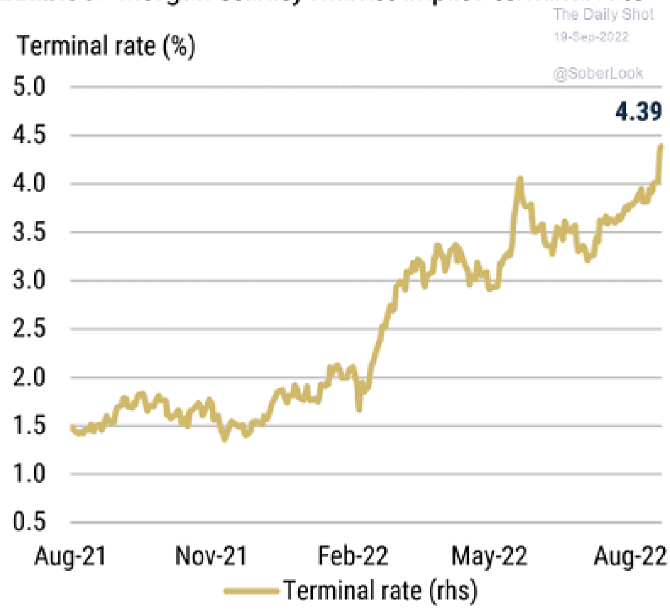
*Based on futures positions in S&P 500 Index, Russell 2000 Index, NASDAQ 100 Index, S&P Midcap 400® Index, and the Dow Jones Industrial Average. Positioning data as of 09.13.2022.

Sources: Deutsche Bank Research; The Daily Shot.

Fixed Income Markets

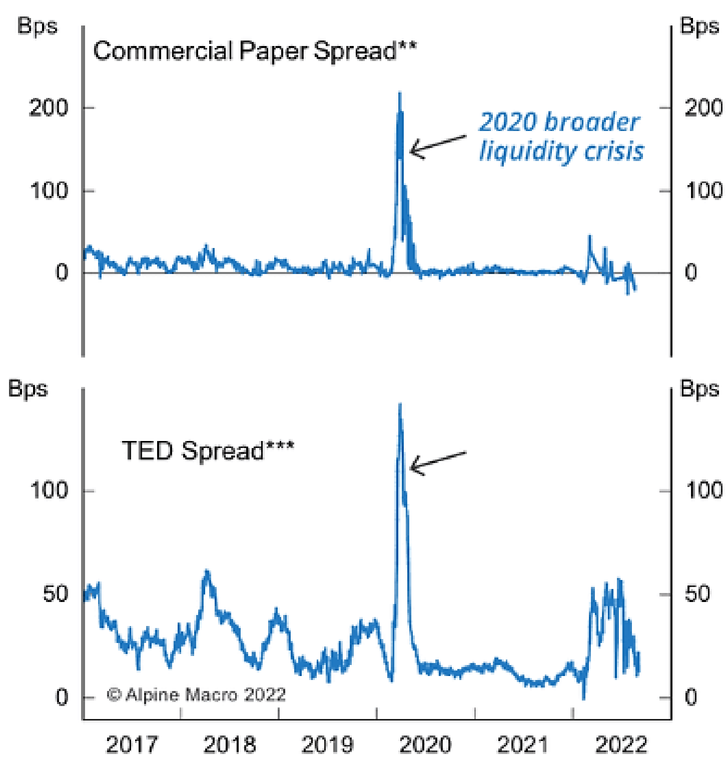
- The market-implied terminal rate (the maximum rate in the current Federal Reserve hiking cycle) increased last week to a new high, according to Morgan Stanley.

Exhibit 5: Morgan Stanley market-implied terminal rate



Sources: Morgan Stanley; Bloomberg L.P.; The Daily Shot.

- Liquidity is tightening, but not to the extent seen during the 2020 COVID-19 crisis.



**AA nonfinancial commercial paper spread over Treasuries. ***3-month LIBOR minus T-Bill.
Sources: Alpine Macro; DTCC; The Daily Shot.

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U.S. Economic and Political News

- August retail sales were stronger than expected, but control-group sales were weaker than expected.
- Regional Fed manufacturing gauges were mixed, with New York's Empire survey improving, but Philadelphia's survey appearing to re-enter contractionary territory. However, both reports showed slower prices-paid growth, implying a slowing of inflation.
- Both initial jobless claims and continuing claims were down week-over-week.
- The preliminary report for the University of Michigan consumer sentiment index showed another drop in respondents' one-year and five-year inflation expectations (consumer inflation expectations also continued to ease back in the New York Fed's August consumer survey).

International Markets and News

- The Chinese stock market (Shanghai Composite) dropped -4.2% along with global equity markets, and the People’s Bank of China drained liquidity from the banking system for the second straight month, but held interest rates steady as it sought to ease selling pressure on the Chinese Yuan.
  - China reported better-than-expected growth in factory output and retail sales last month. However, the property sector continued to report lower new home prices and new housing starts (-46.0% year-over-year).
- European markets (STOXX 600 Index) fell -2.9% along with global equity markets on concerns of elevated inflation and a potential global recession.
  - U.K. inflation in August was 9.9%, which is down from 10.1% in July. However, core inflation (excludes food and energy costs) rose to 6.3% from 6.2%.
  - The European Commission published proposals that could raise up to €140B to soften the impact of soaring energy costs, including a windfall tax on fossil fuel company earnings, a cap on the revenue of non-gas power producers, and a reduction in electricity demand at peak times each month.
- Japanese equities (Nikkei 225 Index) fell -2.3% along with global equity markets on concerns of elevated inflation and a potential global recession.
  - Japanese trade data for August showed that Japan’s exports grew +22.1% from August 2021, building on a 19.0% annual increase in July.

Please reference important disclosures on page 7.

This Week:

- Corporate earnings reports will be light this week.
- Economic data:
  - Monday: National Association of Home Builders (NAHB) Housing Market Index;
  - Tuesday: Building Permits, Housing Starts, Redbook Chain Store, American Petroleum Institute (API) Crude Inventories, Core Inflation (Canada), CPI (Canada);
  - Wednesday: Federal Open Market Committee (FOMC) Meeting, Mortgage Bankers Association (MBA) Mortgage Purchase Applications, Existing Home Sales, The U.S. Department of Energy (DOE) Crude Inventories;
  - Thursday: Current Account Balance, Leading Indicators, Weekly Jobless Claims, The U.S. Energy Information Administration's (EIA) Natural Gas Inventories;
  - Friday: Flash Manufacturing Purchasing Managers' Index (PMI), Flash Services PMI, Retail sales (Can.), Retail Sales ex-Autos (Can.)

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

Whitney Stewart, CFA®
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 Midcap 400® Index provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, is designed to measure the performance of 400 mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment.
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 Consumer Price Index (CPI)** is an index that is often used to measure inflation by tracking the changes over time in the prices paid by consumers for a basket of goods and services. These goods and services are broken into eight major groups: food and beverages, housing, apparel, transportation, medical care, recreation, education, and communication. **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 contra market** is a description of an asset or investment that moves against the trend of the broad market. Contra (or contrarian) market securities and sectors tend to have a negative correlation, or weak correlation, with the broader market index and the general economy. When the economy is weak or stock market indexes underperform, contra segments outperform, and vice versa.**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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