Weekly Market Recap

September 26, 2022

	Price	Price Returns	
Index	**Close**	**Week**	**YTD**
S&P 500® Index	3,693	-4.6%	-22.5%
Dow Jones Industrial Average	29,590	-4.0%	-18.6%
NASDAQ	10,868	-5.1%	-30.5%
Russell 2000® Index	1,680	-6.6%	-25.2%
MSCI EAFE Index	1,734	-3.1%	-25.8%
Ten-Year Treasury Yield	3.68%	0.2%	2.1%
Oil WTI[1] ($/bbl[2])	$79.09	-7.1%	5.2%
Bonds[3]	$97.20	-1.6%	-13.3%

[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.

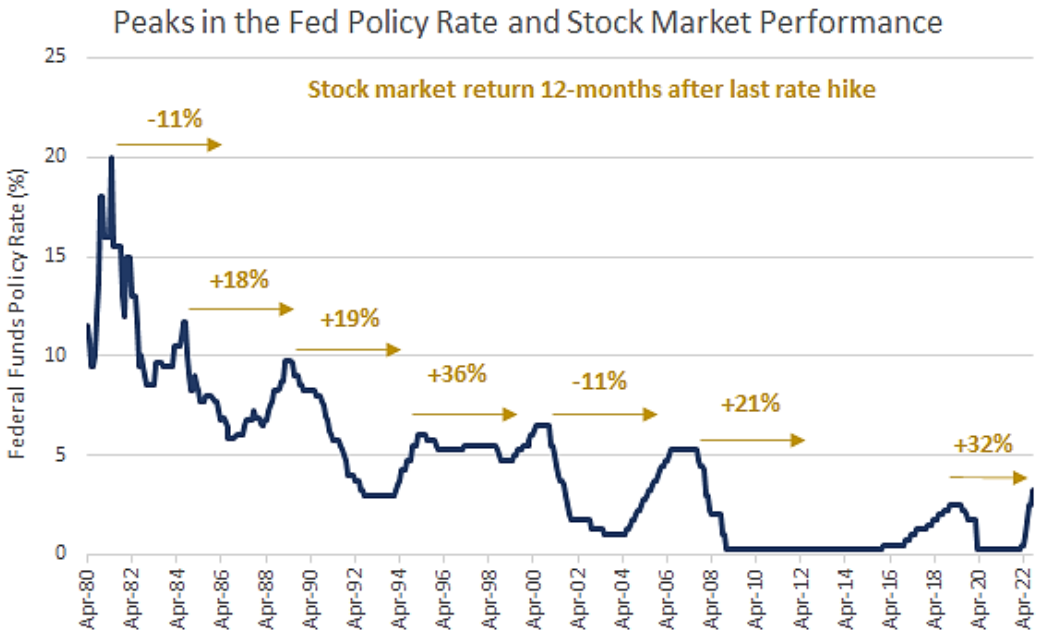
Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) fell -4.6% as the Federal Reserve (Fed) raised rates by an expected 75 basis points (bps) on Wednesday. The Fed dot plot leaned hawkish with the median rate at 4.4% to end in 2022, implying another 125 bps of rate hikes in the final two meetings. Fed Chair Powell's comments also leaned hawkish, saying the dot plot was a plausible path for rates (the dot plot suggests a 4.6% terminal rate in 2023), and he also said the chances of a soft landing are likely to diminish. Higher rates and tightening financial conditions drove further weakness in sentiment with Bank of America's Bull & Bear indicator falling back down to zero, and the team's analysts saying investor sentiment is "unquestionably" the worst since the 2008-2009 financial crisis. The ten-year yield increased 23 bps to 3.68% and the Treasury curve remains inverted, as the two-year yield rose to 4.25%. The dollar index rallied to 20-year highs, gold was down -2.0%, and WTI fell -7.1%.

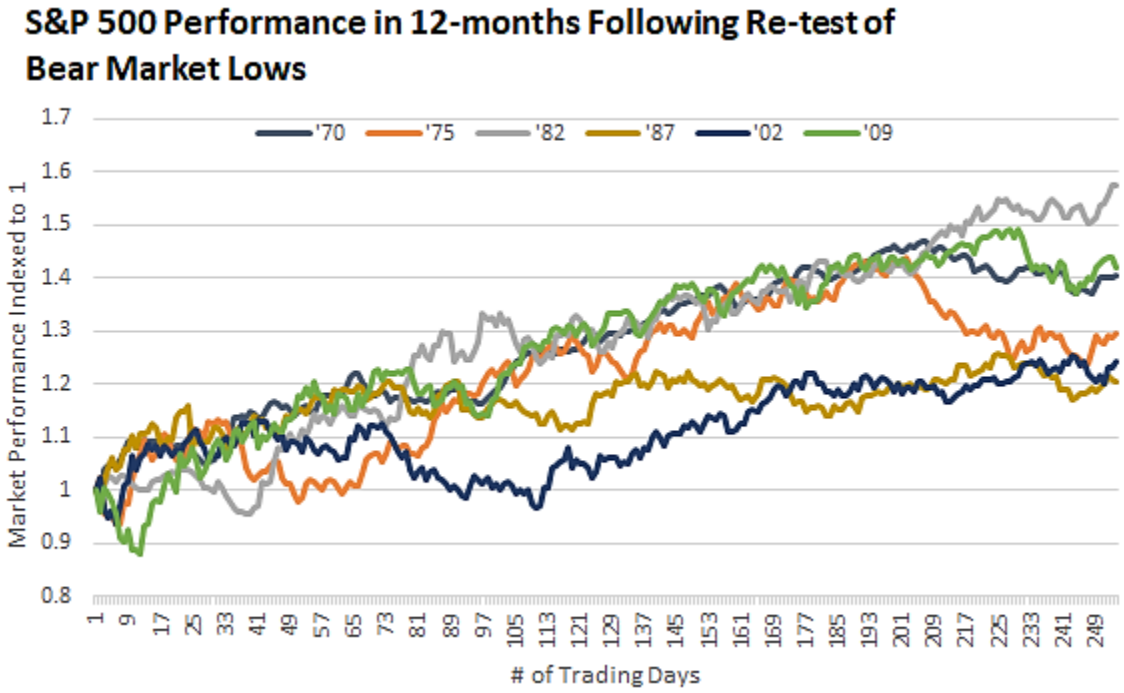
- S&P 500 Index Sector Returns (Price Return):
  - Consumer staples (-2.2%), utilities (-3.1%), and healthcare (-3.4%) outperformed, as investors favored more defensive stocks.
  - Technology (-3.6%) fell, led lower by software and high-valuation stocks.
  - Industrials (-4.6%) fell, with weakness in airlines, aerospace, and defense stocks.
  - Communication services (-5.1%) fell, led lower by social media, streaming, and internet equities.
  - Financials (-5.6%) fell, led lower by data service providers and banks.
  - Materials (-5.7%) underperformed, with weakness in chemical and industrial metals companies.
  - Real estate investment trusts (REITs) (-6.4%) underperformed, led lower by data centers and cell towers.
  - Consumer discretionary (-7.0%) fell, led lower by autos, travel stocks, and **Amazon** (-7.9%).
  - Energy (-9.0%) fell, as the price of WTI declined -7.1%.

- Historically, rate hikes are a headwind for equity markets. However, stocks often perform well after the Federal Reserve policy rate peaks.



Sources: Edward Jones; FactSet. Data as of 09.23.22.

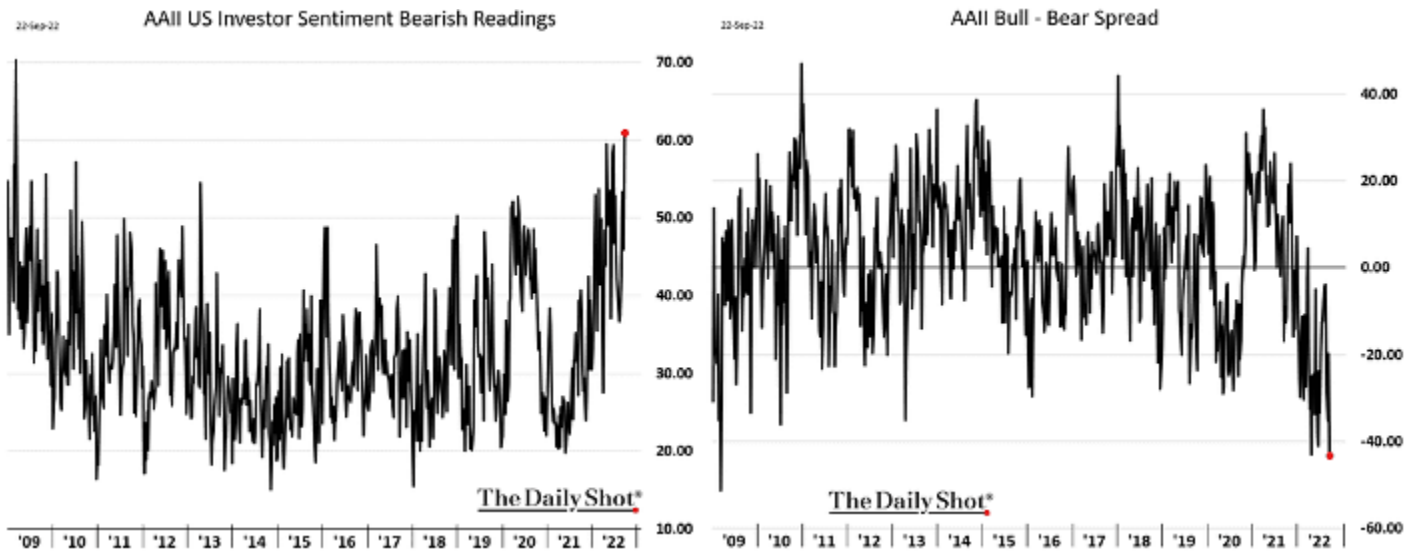
- The S&P 500 Index re-tested the June bear market low this week. In previous bear markets, a re-test of the bear market low may lead to more short-term volatility, but the total return for the S&P 500 Index following previous re-tests of the bear market low has been positive.



Sources: Edward Jones; FactSet.

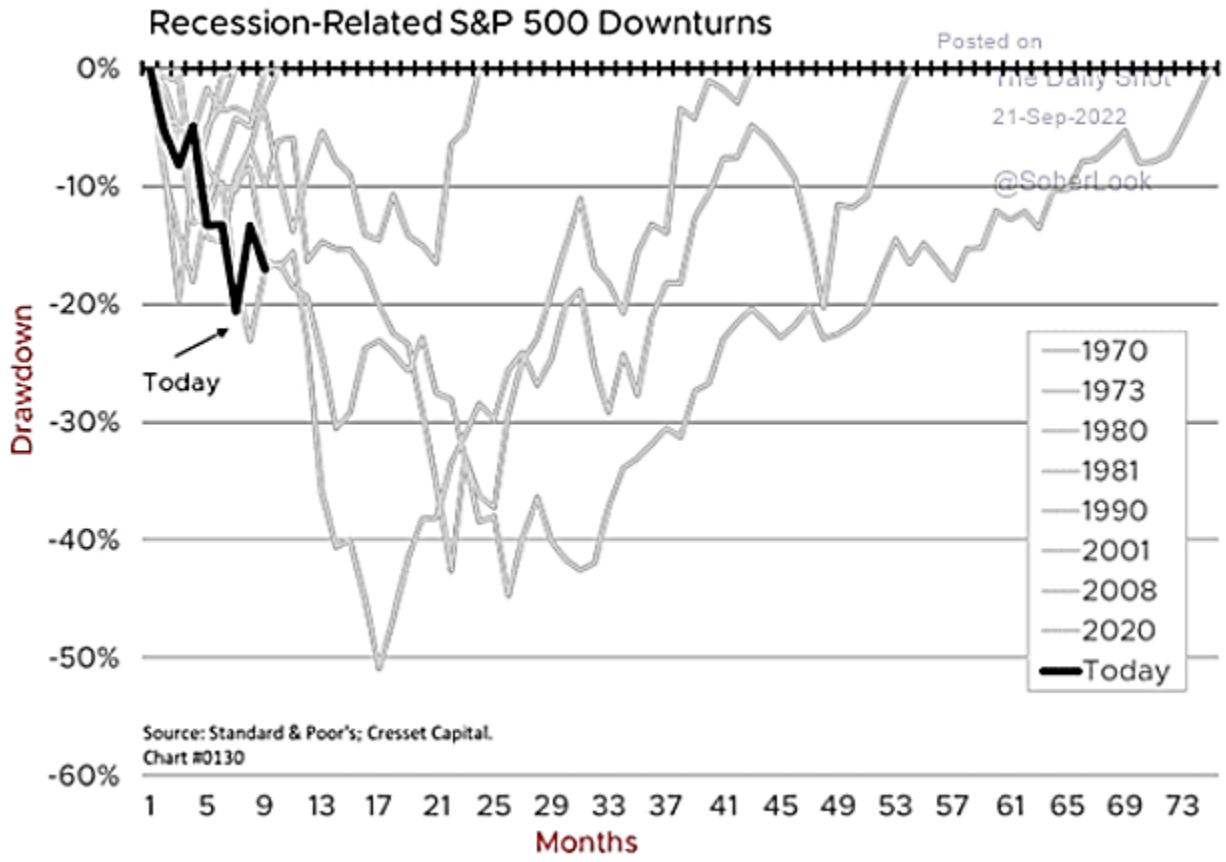
Past performance is not indicative of future results. Any type of investing involves risk and there are no guarantees that these methods will be successful. Please reference important disclosures on page 7.

- U.S. equity investors have the highest bearish readings since the 2008-2009 financial crisis.



Sources: American Assoication of Individual Investors (AAII); The Daily Shot. Data as of 09.22.22.

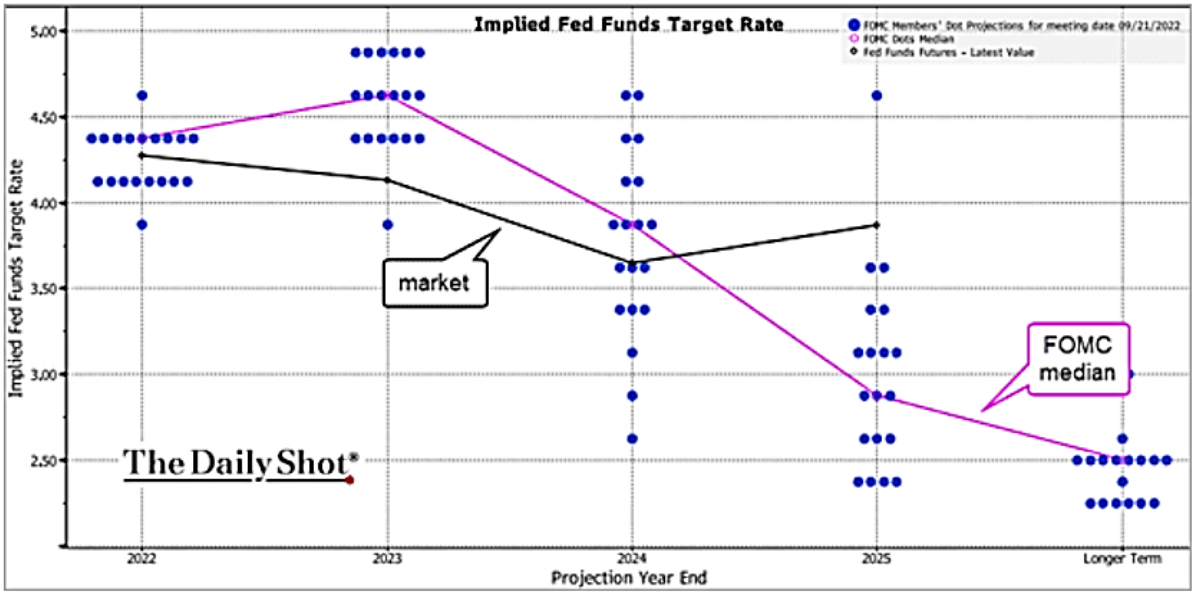
- The chart below shows several historical recession-related S&P 500 Index drawdowns.



Sources: Deutsche Bank Research; The Daily Shot. Data as of 09.21.22.

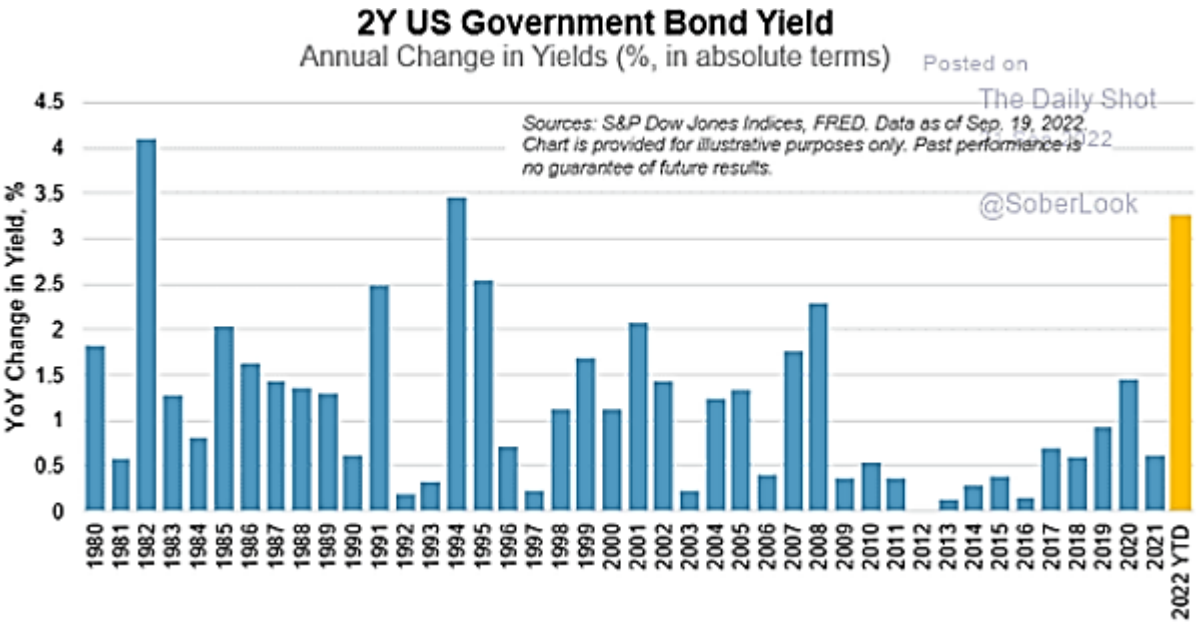
Fixed Income Markets

- The current Federal Open Market Committee (FOMC) median terminal rate is approximately 4.6% at the end of 2023, which is above the futures market expectations (prior to last Wednesday's Fed meeting) for an approximate terminal rate of 4.25% at the end of 2022.



Sources: Bloomberg L.P.; The Daily Shot. Data as of 09.21.22.

- The two-year Treasury yield has increased over 3.25% in less than one year. Fixed income investors have not experienced this steep of an increase since 1994.



Sources: Morgan Stanley; Bloomberg L.P.; The Daily Shot. Data as of 09.19.2022.

U.S. Economic and Political News

- S&P Global reported that manufacturing activity continued to expand and even accelerated a bit (51.8 versus 51.5, with levels above 50 indicating expansion) from August's reading, while services sector activity continued to contract, but at a much more modest pace (49.2 versus 43.7, with levels below 50 indicating contraction.)
- Weekly jobless claims reported on Thursday rose a bit to 213,000, but would have been flat if the previous week's number had not been revised down. The four-week moving claims average fell to its lowest point in three months.

International Markets and News

- The Chinese stock market (Shanghai Composite) dropped -1.2% as global equities declined. The People's Bank of China (PBOC) kept its benchmark lending rates unchanged, but set the Chinese Yuan's fixing rate to the U.S. dollar at the lowest level since early August 2020 as China attempts to slow the pace of depreciation for the Yuan.
  - The Asian Development Bank downgraded its growth estimate for China to 3.3% this year from a prior 4.0% estimate.
- European markets (STOXX 600 Index) fell -4.4% along with global equity markets on concerns of elevated inflation and rising rates from central banks.
  - The Bank of England lifted its key rate 50 bps to 2.25%, which is the second hike in two months.
  - Sweden's central bank raised its benchmark rate by 1.0% to 1.75%, which was more than expected.
  - Switzerland's central bank lifted its benchmark rate by 75 bps to a positive 0.5%, shifting the benchmark rate into positive territory for the first time since 2015.
- Russian President Putin authorized a "partial mobilization" of reservists to fight in Ukraine and hinted that Russia could use nuclear weapons if its "territorial integrity" is threatened.
- Japanese equities (Nikkei 225 Index) fell -2.6% along with global equity markets on concerns of elevated inflation and a potential global recession.
  - The Japanese government intervened in the currency market to support the Japanese Yen (JPY) for the first time since 1998 after it fell below JPY 145 compared to the U.S. dollar.

Please reference important disclosures on page 7.

This Week:

- Corporate earnings reports will be light this week.
- Economic data:
  - Monday: Limited U.S. economic reports;
  - Tuesday: Durable Orders, Federal Housing Finance Agency (FHFA) House Price Index, Case-Shiller Home Price Index, New Home Sales, Consumer Confidence, Redbook Chain Store, American Petroleum Institute (API) Crude Inventories;
  - Wednesday: Mortgage Bankers Association (MBA) Mortgage Purchase Applications, Wholesale Inventories, Pending Home Sales, The U.S. Department of Energy (DOE) Crude Inventories;
  - Thursday: Gross domestic product (GDP) (second revision), Weekly Jobless Claims, The U.S. Energy Information Administration (EIA) Natural Gas Inventories; GDP (Canada);
  - Friday: Core personal consumption expenditures (PCE), Personal Spending, Personal Income, Chicago Purchasing Managers' Index (PMI), Michigan Consumer Sentiment (Final.)

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: **The Federal Reserve's "dot plot"** is a method the Fed employs to illustrate its benchmark federal funds interest rate outlook at some Federal Open Market Committee (FOMC) meetings. The dots on the plot depict the projection of the individual FOMC members for future interest rates in both the near and long term. **The Bank of America Bull & Bear Indicator** measures the aggregate sentiments of financial professionals who deal with the stock market on a daily basis and how those professionals might advise their clients to invest based on those sentiments. An estimated total of **personal consumption expenditures (PCEs)** is compiled by the U.S. government monthly as one way to measure and track changes in the prices of consumer goods over time. PCEs are household expenditures. PCEs as well as personal income statistics and the PCE Price Index are released monthly in the Bureau of Economic Analysis (BEA) Personal Income and Outlays report. **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. **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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