Weekly Market Update

General Market News

- The economy continues to show signs of strength—consumer confidence, new home sales, and personal spending all surprised to the upside last week—while the Federal Reserve (Fed) actively tries to cool inflation. This Friday's release of September employment data will be another important piece of that puzzle for the Fed leading up to its next rate decision in early November. Based on the Federal Open Market Committee (FOMC) dot plot released after the most recent meeting, all but one committee member expects the terminal policy rate to rise above 4 percent and some members have expressed concerns about potentially going too far—and too quickly. Chicago Fed President Charles Evans was apprehensive about the pace, saying, "There are lags in monetary policy and we have moved expeditiously. We have done three 75 basis point (bp) increases in a row and there is talk of more to get to that 4.25 percent to 4.5 percent by the end of the year. You're not leaving much time to sort of look at each monthly release." The U.S. Treasury yield curve shifted moderately last week. The 2-year, 5-year, and 10-year fell 18 bps (to 4.16 percent), 23 bps (to 3.96 percent), and 1 bp (to 3.71 percent), respectively. The 30-year gained 2 bps (to 3.66 percent).
- Equity sold off again last week, marking it the sixth week in the last seven to post a loss. The catalyst in aggressive Fed tightening remained in place as the sell-off that has persisted over the last month. The S&P 500 fell by 9.34 percent in September as the FOMC hiked another 75 bps, marking the third straight hike of this magnitude. Additionally, the FOMC moved up its rate expectations for 2023, which are now closer to 4.5 percent. The federal funds rate currently sits between 3.00 percent and 3.25 percent, indicating that the FOMC expects to continue to hike in upcoming meetings. This further and faster approach from the Fed jostled equity and bond markets. We've also begun to see this translate into corporate earnings, which were revised down considerably last month, with consumer discretionary names such as Nike (NKE), V.F. Corp (VFC), and CarMax (KMX) seeing inventories climb and sales declines. Apple (AAPL) also reported softer-than-expected iPhone demand and saw its stock decline on the news.
- Tuesday brought the release of the Conference Board Consumer Confidence Index for September. It surprised to the upside with a reading of 108.0; surveyed economists had anticipated a reading of 104.6, an increase from August's reading of 103.2. This was the second consecutive month of improving consumer sentiment after three straight months of declines. This result was driven by moderating consumer expectations for longer-term inflation despite current inflation remaining uncomfortably elevated.
- This past Tuesday also saw the report on August new home sales. Surveyed economists expected to see that the annual pace of new home sales fell to 500,000, but the report surprised to the upside at 685,000. In addition to thrashing expectations, this reading is significantly higher than July's report of 511,000, highlighting continued demand for new single-family homes despite the quick rise in mortgage rates during the month.
- On Friday, personal income and personal spending reports for August were released. Personal income increased 0.3 percent, matching expectations of surveyed economists. This was the 11th consecutive month with income growth. Spending beat expectations, with the report showing a 0.4 percent increase against calls for a 0.2 percent rise, marking eight straight months of increased spending. Overall, these reports showed that consumers were still willing to go out and spend during the month, which was a good sign for overall economic growth.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.88	–9.21	–23.87	–16.43
Nasdaq Composite	–2.68	–10.44	–32.00	–26.85
DJIA	–2.92	–8.76	–19.72	–14.62
MSCI EAFE	–1.35	–9.35	–27.09	–24.56
MSCI Emerging Markets	–3.26	–11.72	–27.16	–27.74
Russell 2000	–0.82	–9.58	–25.10	–24.77

Source: Bloomberg, as of September 30, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–4.32	–14.61	–14.84
U.S. Treasury	–3.45	–13.09	–13.18
U.S. Mortgages	–5.05	–13.66	–14.14
Municipal Bond	–3.84	–12.13	–11.49

Source: Morningstar Direct, as of September 30, 2022

What to Look Forward To

On Wednesday, the ISM Services index for September will be released. Economists expect service sector confidence to decline from 56.9 in August to 56.5. This is a diffusion index, where values above 50 indicate growth, so, if estimates hold, this would still signal an expansionary level of service sector confidence. It will be interesting to see how the report compares with expectations because consumer demand for services remains relatively strong, though demand for services generally cools in the fall. If the index beats expectations, it would be a good sign for the health of the overall economy.

Friday will see the release of the September employment report. Economists don't expect the unemployment rate to move much, with surveyed respondents expecting an unchanged rate of 3.7 percent. If estimates hold, this would represent the continuation of a tight labor market and could support Fed plans for tighter monetary policy at its November meeting. Job creation data is also expected to show signs of a strong labor market, though it's expected to be softer than the previous month. Nonfarm payrolls are expected to increase by 250,000 (compared with August's report of 315,000) and private payrolls are expected to increase by 268,000 (compared with August's report of 308,000).

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev. 10/22.

Authored by the Investment Research team at Commonwealth Financial Network.®