Weekly Market Report

Friday, July 29th 2022

INDEX PERFORMANCE

Index Name	WTD % CHG	YTD % CHG
DOW JONES	3.023%	-9.562%
NASDAQ	4.615%	-20.868%
S&P	4.251%	-13.347%
FTSE	3.693%	-18.933%
APAC EX JAPAN	0.251%	-18.041%

SECTOR PERFORMANCE

Sector Name	WTD % CHG	YTD % CHG
Energy	10.827%	41.786%
Utilities	6.686%	3.146%
Consumer Staples	1.672%	-4.142%
Materials	4.728%	-12.805%
Real Estate	4.952%	-14.499%
Health Care	1.799%	-8.239%
Industrials	6.076%	-10.973%
Financials	3.472%	-13.897%
Consumer Discretionary	5.021%	-21.106%
Information Technology	4.718%	-19.290%
Communication Services	1.162%	-28.091%

Market Summary

Written by: Michael Davern

Equities:

Equity bulls caught substantial momentum this week, highlighted by 10 out of 11 S&P 500 sectors finishing higher than their open on Monday. It was the second week of 2nd quarter earnings, and a few key names reported stronger than expected results which helped carry momentum in the overall indexes. From a volatility perspective, the VIX traded down to 21 near the end of the week after opening and held near 25 until the FED came out with their official FOMC decision of .75% increase. This volatility drop shows that investors were not surprised by the decision and that it was priced into equity markets at that point. Overall, equity prices trended significantly higher in a renewed bid for names across all sectors. To finish the week, the S&P 500 finished up 4.1%, and the Nasdaq was up 5.4%.

Fixed Income:

Based on the macro news, US government bond markets retreated on the longer end of the maturity curve this week and gained on the shorter end. As a result, our 2yr note rose to around 2.9% yield, further widening the spread between the 10yr yield, which is currently between 2.65 and 2.7%. Overall it is worth noting there was more of a muted price reaction to the .75% interest rate increase the FOMC decided to apply to the FED Funds rate on Wednesday this week. In past months we saw sharp volume spikes directly after the FOMC made its decision public. On the corporate debt side, high yield debt rose along with investment grade from an overall index perspective. These flows into bond markets represent some level of stability that previously was difficult to find due to the changing interest rate environment.

Economy:

By any standards, it was a hectic week for economic data stateside and abroad. Early in the week, investors digested US home sales data that came in lower than expected for June with a drop of -8.1% MoM vs. estimates of -4.2%. On the same day, retail inventories reported a higher increase than anticipated, reading of +1.6% vs .4% est. However, the above figures likely didn't have much impact on the FEDs highly sought-after decision on the US FED Funds rate. FED chair Powell came out on Wednesday afternoon with the FOMC's decision to raise the rate by .75% to a target of 2.5%. Overall, this decision was highly "priced in" by both the equity and fixed income markets but shows their continued resolve to press on in fighting inflation with stoking demand. Some pundits heard a slightly more doveish tone in his press conference following the decision but overall, much of the rhetoric was the same, with his crucial point holding firm at "restoring price stability.". Next, a more surprising data set was released on Thursday, with the US reporting a second quarter of negative GDP growth at a -.9% decrease YoY. By the technical definition of a recession, the US is currently in one, but most economists aren't so sure as key measurements such as unemployment are still historically strong. Finally, we got data from the Eurozone that slightly surprised investors to the upside on Friday. Their GDP grew at a 4% clip YoY vs. anticipated figures of 2.8% showing resilience in the face of higher costs for critical goods such as energy. From a domestic standpoint, higher interest rates are working as intended, with growth slowing faster than economists forecasted. Across the pond, the resilience we saw out of the Eurozone is an overall positive for macro conditions. With August being a month off from policy decisions, investors will monitor the effects moves to this point have had on economic conditions.

US 3 Month Bill vs US 10 Year Bond

Tightening Gap

- One of the most significant recession indicators for economist is the 3-month US treasury vs the US 10 yr bond.
    - Through the year the spread between the two has gradually narrowed.
- The recent retreat in the 10 year is indication the market believes long run inflation will come back in line with the 2% target.

Citations

Graph: https://tradingeconomics.com/germany/inflation-cpi
Data with write up: Trading Economics for Macroeconomic figures
Yahoo Finance for index pricing

Pricing as of 3:15pm EST 7/15/22

Acronym Key:

- WTD: Week to date
- YTD: Year to date
- CHG: Change
- PPI: Producer Price Index
- CPI: Consumer Price Index
- YoY: Year over year change
- FOMC: Federal open market committee
- VIX: Volatility index
- GDP: Gross domestic product