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WEEKLY MARKET RECAP | September 19, 2022

Week in Review

Equity Markets:

A broad equity market selloff occurred following the CPI report last Tuesday. We saw the DJIA drop over 1,000 points; the largest daily decline since 2020. The S&P ended the week down 4.7%, and nearly 20% below the early January all-time high. Growth stocks struggled on the fears of more rate hikes, the NASDAQ ended the week down 5.5%.

Fixed Income Markets:

Yields jumped following the CPI report on Tuesday. The 10-yr treasury ended the week at 3.45%. This marks the seventh consecutive week the 10-yr yield has ended the week higher. The treasury curve remains deeply inverted. The 2-yr treasury closed Friday with a yield of 3.86%, the highest it has yielded since 2007. The 2/10 spread ended the week at -0.41%.

The 2/10 spread has been negative since July, but as time has passed more portions of the yield curve are inverting. The 2/10 is dominated by financial news, but academics tend to look at the 3-month/10-yr spread. This spread is less predictive, but more of a confirmation of an impending economic slowdown. This spread currently stands at +0.28%.

Economic:

The headline report for the week was Tuesday's CPI release. The headline reading saw a slight decrease from July's 8.5% to 8.3% year over year. Core CPI, which excludes food and energy, rose 6.3% year over year. Inflation has moderated and it appears we are near the peak, if we have not already experienced it, but last week's numbers increased concerns of the "stickiness" of the current inflation environment. August's PPI came in at 8.7%, the slowest growth rate we've seen in a year. The Producer Price Index also supports the belief that we are near the top of the inflation cycle.

Consumer sentiment has improved from the all-time low recorded in June. Albeit less than expected, the University of Michigan's Preliminary Consumer Sentiment Index for August rose to 59.5, slightly missing Bloomberg expectations of 60. Retail sales saw a surprise growth of 0.3% in August; this follows July's decline of 0.4%.

Looking Ahead

Equity Markets:

Recession has been a hot-button topic for the majority of the year. We believe investors should focus on the long-view and not the short-term fluctuations. Historically the stock market has been a discounting mechanism for the economy and has bottomed before an official recession has been announced. The psychology of the market is hard to battle when the news is at its worst is, which usually creates the best long-term investment opportunity. As an investor, you should consider two major factors in volatile markets: Risk Tolerance & Time Horizon.

Your desired risk tolerance is the most important factor when investing. If an individual cannot withstand market volatility, it does no good to take on excess risk. We consider this an investor's *willingness* to take risk. An investor's time horizon is vital in determining their *ability* to take risk. A thoughtfully developed investment plan is a calculated balance between these two factors to hopefully maximize risk-adjusted return over time.

Headline news has been anything but great his year. Recent earnings revisions and a sticky inflation picture make it seem to us that the worst news is fast approaching. We believe that these could represent that we are closer to the "worst news" which should be an encouragement to investors that have committed to their long-term investment goals and have the potential to benefit while the majority of the market panics.

Fixed Income Markets:

The FOMC policy meeting will start on Tuesday and culminate with the policy decision announcement Wednesday afternoon. Following the stubborn CPI report last week, the market has priced in a 0.75% hike this week and the odds for a potential full percent hike increased greatly.

As the 10-yr approaches the high end of our target range, we still believe the yield will moderate in the 3.25-3.5% for the majority of the time. With the persistent inflation, we do believe that the 10-yr yield could move north of 3.5%, maybe as high as 3.75%, but not for a sustainable period due to secular deflationary factors that exist. At the current rate structure, we believe there are real opportunities for fixed-income investors.

Economic:

The FOMC meeting this week will likely have the most impact on market sentiment but there will be other key economic data points released. The NAHB housing market index, starts, building permits, and existing home sales will be released. The housing market has seen a sharp decline in activity and these reports are likely to continue the trend with mortgage rates still at multi-year highs. August Leading Economic Index and PMI data from the manufacturing and services sector will round out the week.

See below for important disclosures