Week in Review

Equity Markets:

After the positive stretch in July, the S&P ended August on a 3-week skid. The S&P 500 ended the week down 3.3% and ~18.5% from the early January market high. Investors hoped for slowing labor market numbers, but the labor market remains strong. There are also increasing concerns the Fed will continue the rate hikes.

Earnings season is nearly complete with over 99% of S&P companies having reported. 75% of companies have reported positive earnings surprises which is slightly lower than the five-year average of 77%, according to FactSet. Year-over-year earnings growth stands at 6.3%, below the five-year average, but much better than analysts' expectations of 3.9% at the beginning of the quarter, as gathered by FactSet

Fixed Income Markets:

The 10-year Treasury ended the week just below 3.2% after reaching as high as 3.29% early in the week. After Chairman Powell's comments in Jackson Hole, yields across the curve spiked early in the week before settling Thursday and Friday. The 2's/10's spread remains in deep inversion, despite the 10-year Treasury's rally from a July low yield of 2.64%.

Economic:

The JOLTS report on Tuesday showed there is still underlying strength in the labor market. There were over 11 million job openings. According to FactSet, this is nearly double the number of workers looking for jobs. The August non-farm payrolls that were released on Friday came in near expectations. The market was hoping for slower growth and many market participants expected a sharp rally if job numbers came in lower than expected. The unemployment rate rose to 3.7%, due mostly to the increase in the labor force participation rate. Wage growth remained strong, posting a 5.3% year-over-year gain.

The ISM Manufacturing Index was flat month-over-month. This could be an early sign that supply chain constraints could begin easing.

Looking Ahead

Equity Markets:

The volatility seen so far this year is likely to remain given the seasonal factors and the mid-term elections. Although not perfect, the months of September and October have historically shown high volatility relative to other times of the year. This is important for investors to keep in mind as the exhaustion of the volatility already experienced in 2022 is likely high for most.

According to Yardeni Research, the average bear market lasts ~13 months. Bear markets do take time but have also been much shorter relative to the preceding and following bull markets in the past. We are currently a little more than eight months into the current bear market. Investors should remain disciplined and stick to their long-term investment plan. In times of volatility, a systematic rebalancing program can assist in staying aligned with your risk tolerance and an investor can purchase oversold assets that provide long-term investment opportunities. Now is not a time to be high on your individual risk spectrum. We believe remaining diversified across the equity markets will help investors withstand the likely elevated volatility for the remainder of the year.

Fixed Income Markets:

The labor market strength makes it easier to assume a longer rate hike cycle, and the market is pricing in a higher likelihood of the third consecutive 0.75% rate hike. We believed that a weak labor report on Friday could have led to a quick drop in rates, while a hot labor market could lead to a quick jump in the 10-year Treasury yield. The on-par labor report took some time for the market to gain any direction.

With the likelihood of rate hikes continuing, our rate outlook remains unchanged. We still see the 10-year floating near 3.5% until the next easing cycle. We do believe the 10-year could peak above 3.5% but that level is unlikely to be sustainable because of the secular deflationary factors we have noted in the past.

Economic:

This week we will see the services side of the ISM Index. After a stable reading in manufacturing last week, this report is likely to grab attention in hopes of a peaking trend by inflation throughout the economic environment. Going forward, initial jobless claims could be a good indicator of a cooling trend in the labor market and will be important to watch. The Fed will release its *Beige Book* on Wednesday, which will provide timely information on economic conditions before the next policy meeting later this month.

See following page for important disclosures

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