

MARKET VIEW WEEKLY

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ECONOMIC REVIEW¹

- Headline consumer prices eased marginally for a third consecutive month in September, dropping to 8.2% on an annualized basis – the lowest level since February.
 - Core prices surprised to the upside with both monthly and yearly measures, and report details clearly showed a broadening out of inflationary pressures as the cost of services and shelter inflation both swelled last month.
 - On a positive note, both food and energy costs increased at a slower rate compared to last month as a general downtrend in commodity prices through the summer continued into the fall.
- The Producer Prices Index (PPI), unfortunately, climbed higher in September after declining in July and August, suggesting price increases further up the supply chain have not yet begun a full-scale retreat.
 - Headline PPI increased 0.4%, above the consensus expected +0.2%, and is up 8.5% from a year ago.
- Retail sales were unchanged last month, which was below expectations of a 0.2% increase, and continued to show a consumer and an economy transitioning from goods to services.
 - “Core” sales, which exclude the volatile autos, building materials, and gas stations categories, actually rose 0.4% in September, though inflation remains a key driver of sales.
- **How do the CPI, PPI, and Retail Sales impact you?**
 - Price data from last week, by nearly every measure, confirmed significant inflationary pressures still exist throughout the global economy.
 - Investors should expect monetary policy to remain tight and trend towards restrictive territory as rhetoric from the Federal Reserve remains quite hawkish.
 - Further strength from retail sales as we move into the holiday season could potentially provide a tailwind to a slowing economy into the end of the year but will continue to be driven by inflation to a degree.



A LOOK FORWARD¹

- Personal Consumption Expenditure (PCE), the Fed’s preferred inflation measure, and Real GDP for the third quarter highlight next week’s economic data releases.
 - Core PCE reached 7.0% in August, and this September report will be the last significant inflation data the Fed receives prior to their early November meeting and policy decision.
- **How do inflation and GDP impact you?**
 - Markets have been majorly influenced by inflation data and Fed policy for some time. At these elevated levels of inflation and with more restrictive monetary policy that market participants have seen in more than a decade, investors should expect more of the same through the end of the year.



MARKET UPDATE

Market Index Returns as of 10/14/22	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	-1.53%	0.00%	-23.87%	-18.01%	8.26%	8.93%
NASDAQ Composite TR USD	-3.11%	-2.38%	-33.62%	-29.84%	9.51%	10.33%
DJ Industrial Average TR USD	1.17%	3.22%	-17.13%	-13.38%	5.61%	7.65%
Russell Mid Cap TR USD	-2.54%	-0.10%	-24.34%	-22.64%	5.45%	6.17%
Russell 2000 TR USD	-1.15%	1.10%	-24.28%	-25.05%	5.07%	3.61%
MSCI EAFE NR USD	-1.35%	0.57%	-26.68%	-25.38%	-1.70%	-1.03%
MSCI EM NR USD	-3.81%	-1.39%	-28.17%	-29.90%	-3.07%	-2.87%
Bloomberg US Agg Bond TR USD	-1.19%	-1.44%	-15.84%	-15.90%	-3.64%	-0.62%
Bloomberg US Corporate High Yield TR USD	-1.11%	0.29%	-14.49%	-13.70%	-0.30%	1.60%
Bloomberg Global Aggregate TR USD	-1.42%	-1.81%	-21.34%	-21.87%	-6.29%	-2.75%



OBSERVATIONS

- U.S. equities were mostly negative; Blue Chip securities being the lone bright spot with the Dow up 1.17%.
- Among style boxes domestically, mid-caps and growth shares fared the worst as the Russell Mid Cap index and the Nasdaq Composite dropped -2.54% and -3.11%, respectively.
- Developed international markets beat out Emerging Markets, but both were down over the week, the MSCI EAFE by -1.35%, MSCI EM by a more significant -3.81%.
- U.S. bonds were negative for the week, with Bloomberg Barclays U.S. Aggregate Bond index down -1.19%.



BY THE NUMBERS

- The median U.S. asking rent rose 9% year over year in September to \$2,002, the slowest growth since August 2021 and the first single digit increase in a year. That's according to a new report from Redfin (redfin.com), the technology-powered real estate brokerage. September was the fourth-consecutive month in which annual rent growth decelerated, with rents climbing at half the pace they were six months earlier.²
- According to The Wall Street Journal's latest survey of economists, on average, economists put the probability of a recession in the next 12 months at 63%, up from 49% in July's survey. It is the first time the survey pegged the probability above 50% since July 2020, in the wake of the last short but sharp recession.³
- Airlines are raising prices worldwide in response to higher fuel and labor costs, and amid rebounding demand for travel as pandemic restrictions ease globally. Flights to China have soared beyond those increases—sometimes as much as 10 times higher than pre-pandemic fares—as Beijing's continued adherence to zero-Covid policies has kept flights into the country scarce, while demand inches higher following a modest relaxation to China's strict entry restrictions. A recent search on United Airlines Holdings Inc.'s website showed one-way economy tickets from San Francisco to Shanghai, with a stopover in South Korea, going for \$4,000 or more next month.⁴

Economic Definitions

Producer Prices - PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

CPI (headline and core): Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

ISM Manufacturing Index - PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

ISM Services Index - PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

Job Openings: JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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¹ Data Obtained from Bloomberg as 10/14/2022

² <https://investors.redfin.com/news-events/press-releases/detail/812/redfin-reports-rents-are-growing-half-as-fast-as-they-were>

³ <https://www.wsj.com/articles/economists-now-expect-a-recession-job-losses-by-next-year-11665859869>

⁴ https://www.wsj.com/articles/flying-to-china-in-economy-class-will-cost-you-5-000-11666003410?mod=business_lead_pos7