

August 22, 2022

# Weekly Viewpoint

## All Eyes on Jackson Hole Meeting

### Performance for Week Ending 8.19.2022

The Dow Jones Industrial Average (Dow) finished off 0.16%, the Wilshire 5000 Total Market Index<sup>SM</sup> (Wilshire 5000<sup>SM</sup>) fell 1.61%, the Standard & Poor's 500 Index (S&P 500) dipped 1.21% and the Nasdaq Composite Index (NASDAQ) shed 2.62%. Sector breadth was negative with 8 of the 11 S&P sector groups closing lower. The Communication Services sector (-3.28%) was the worst performer followed by Materials (-2.45%) and Real Estate (-1.94%).

Index*	Closing Price 8/19/2022	Percentage Change for Week Ending 8/19/2022	Year-to-Date Percentage Change Through 8/19/2022
Dow	33706.74	-0.16%	-7.24%
Wilshire 5000	42177.29	-1.61%	-12.97%
S&P 500	4228.48	-1.21%	-11.28%
Nasdaq	12705.21	-2.62%	-18.79%

### Market Observations: 8/15/22 – 8/19/22

The major market indices finished the week lower, with the S&P 500 breaking a four-week winning streak, as investors took advantage of recent gains to lock in profits. Coming into the week, the S&P had gained over 16% off the June 16 low, reflecting building confidence that inflation has peaked, and the Fed will begin to slow its pace of rate hikes. While the recent release of the July FOMC meeting minutes was viewed as having a dovish tilt, some Fed Presidents didn't seem to get the memo. St. Louis Fed President James Bullard said he is considering support for another large rate rise at the central bank's policy meeting next month and added he isn't ready to say the economy has seen the worst of the inflation surge. Kansas City President George noted it was too early to declare victory over inflation, so the case for continued hikes remained strong, even if the Committee had to be mindful of what the lagged impact of tightening may look like. Finally, Minneapolis President Kashkari was uncertain about the prospects of a soft landing, saying he didn't know if the Fed could bring inflation back to target

without a recession, given he couldn't count on supply side expansion, particularly in the labor market. Like other speakers, he re-emphasized breaking inflation's back was urgent.

**FOMC Meeting Minutes:** According to the meeting minutes from the Fed's July meeting, officials judged that it would eventually be appropriate to slow the pace of interest-rate increases while evaluating the effects of their tightening actions to date. Per the release, the minutes stated that "as the stance of monetary policy tightened further, it likely would become appropriate at some point to slow the pace of policy rate increases while assessing the effects of cumulative policy adjustments on economic activity and inflation," adding that "many participants remarked that, in view of the constantly changing nature of the economic environment and the existence of long and variable lags in monetary policy's effect on the economy, there was also a risk that the committee could tighten the stance of policy by more than necessary to restore price stability."

**Jackson Hole Meeting:** Investors may get some clarity on the Fed's forward path as central bankers are set to attend the Fed's annual monetary policy symposium at Jackson Hole, Wyoming on Aug. 25-27. This year's topic will be "Reassessing Constraints on the Economy and Policy." The conference, which is sponsored by the Kansas City Federal Reserve, is watched very closely as the meeting has been used in the past to communicate policy initiatives. Fed officials in recent weeks have been stressing that they are "far from done" in terms of their battle with inflation, suggesting that additional rate hikes are likely at upcoming meetings. Fed Chairman Powell will speak at the meeting on Friday morning. According to Bloomberg's World Interest rate Probability tool, fed fund futures are currently discounting between a 50 and 75 basis point move.

**Retail Sales Were Solid Overall:** Despite the flat (0.0%) headline reading, the core retail sales figures underscored that consumers retained their staying power entering into Q3 and suggested that spending could receive a further boost in the coming months as consumer goods and energy price gains continue to ease. A steep drop in gasoline station sales, in large part due to the decline in prices at the pump and a fall in motor vehicle and part sales - weighed on the headline reading. Retail sales in July were flat versus expectations for a 0.2% rise, but the large 1.8% decline in gasoline sales driven largely by the reversal in gasoline prices and a 1.6% contraction in motor vehicle and part sales detracted from the headline reading. Excluding autos, retail sales rose 0.4%, while retail control sales, which feed into the GDP calculation, advanced at strong 0.8% in July, following similarly solid gains of 0.7% in June and an upwardly revised 0.8% in May (previously reported -0.3%).

**Q2 Earnings Season:** With earnings season almost wrapped up, second quarter results are likely to finish the quarter at a much better than feared pace. Through Friday, 473 members of the S&P 500 have reported with over 75% surprising to the upside. Aggregate earnings for the group are up 8.2%, more than double the 4% consensus estimate at the start of reporting season. The strongest quarterly results are coming from the Energy, Industrials, and Materials.

**Market View:** Our cautiously optimistic view on the markets remains intact. While not ruling out a retest of the recent lows, we have been encouraged by the strong rebound off the mid-June trough. While equity valuations have perked up a bit in recent weeks, they remain well below levels at the start of the year and suggest a lot of

negative news and uncertainty has already been discounted in the markets. With inflation still running well above the Fed's target level, rate hikes are likely to continue although the recent string of aggressive hikes could begin to moderate at future meetings.

**The Week Ahead:** Markets will be laser-focused on the Jackson Hole forum as they await Chair Powell's Friday remarks on the outlook for inflation and growth. Data reports of interest include the S&P Manufacturing PMI for August, July New Home Sales, Durable Goods Orders for July, July Pending Home Sales, Personal Income and Spending during July and the July PCE inflation data. It will be a quiet week on the earnings front with just 11 members of the S&P 500 scheduled to release results. Due to the Jackson Hole meeting at the end of the week, the Fed speaking calendar is very light with just a single presentation scheduled.

## Definitions

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

**Wilshire 5000 Total Market Index<sup>SM</sup>** represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

**Standard and Poor's 500 Index** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

**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.

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