September 19, 2022

Weekly Viewpoint

All Eyes on the Fed Meeting, 75bps Likely

Performance for Week Ending 9.16.2022

The Dow Jones Industrial Average (Dow) finished off 4.13%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) lost 4.82%, the Standard & Poor's 500 Index (S&P 500) fell 4.77% and the Nasdaq Composite Index (NASDAQ) shed 5.48%. Sector breadth was negative with all 11 of the S&P sector groups closing lower. The Materials sector (-6.65%) was the worst performer followed by Real Estate (-6.48%) and Communication Services (-6.43%).

Index*	Closing Price 9/16/2022	Percentage Change for Week Ending 9/16/2022	Year-to-Date Percentage Change Through 9/16/2022
Dow	30822.42	-4.13%	-15.18%
Wilshire 5000	38750.47	-4.82%	-20.04%
S&P 500	3873.33	-4.77%	-18.73%
Nasdaq	11448.40	-5.48%	-26.82%

Market Observations: 9/12/22 – 9/16/22

Stocks indices finished the week sharply lower as a hotter than expected report on consumer inflation cast a pall over the markets. On Tuesday, the Labor Department reported that the August Consumer Price Index (CPI) rose 8.3% year-over-year (yoy) from 8.5% in July. Excluding food and energy, the core CPI rose 6.3% yoy, accelerating from last month. Inflation pressures continued to ease in a few categories such as gasoline, airfare, and used vehicles. However, several categories are still running hot. Food prices rose 11.4% from a year ago, the largest year-over-year increase since 1979, and electricity prices increased month over month for a straight gain. The report cemented the likelihood of a 75 basis points (bps) rate hike at this week's Federal Open Market Committee (FOMC) meeting and increased the odds of a more aggressive path of hikes over the remainder of this year. The yield on the 2-year Treasury, the part of the curve most sensitive to Fed policy, rose 31 basis points over the course of the week to finish at 3.87%, its highest level since November 2007. The sell-off last week suggests that investors are becoming increasingly worried that the Fed, in its battle to tame inflation, may overtighten policy and push the economy into recession.

Warning From a Global Bellwether: Adding to the negative tone was a warning late in the week from FedEx. The global shipper and logistics company withdrew its annual outlook and forecast sharply lower quarterly profit and lower revenue. Speaking on CNBC, the company's CEO Raj Subramaniam said that the global economy was likely headed for a recession. The warning caught investor's attention as the company is viewed as an economic bellwether due to its global reach and diversified customer base.

Other Economic Data: Consumers spent more than expected in August as retail sales rose 0.3% month-over-month but the July data was revised down to -0.4% from a flat reading. The key core retail 'control' sales reading – sales excluding autos, gasoline, and building materials – disappointed with a flat outcome, and the August advance was also revised lower to 0.4% (from 0.8%). On net, the data suggested that consumer spending is on track for moderate growth in Q3. Meanwhile, the Labor Department reported that initial jobless claims fell 5k to 213k in the week ended September 10, below expectations for claims of around 227k. Claims for the prior week were revised down by 4k to 218k. The latest week's data pushed the four-week moving average for initial claims down 8k to 224k, the lowest since June. Elsewhere, the New York Fed's Empire Manufacturing Index rose to -1.5 from -31.3. The details were somewhat better than the headline with new orders and shipments returning to positive territory. Six-month capital spending plans rose to their best level in three months. By contrast, the Philly Fed index was soft across the board. The headline business conditions index fell to -9.9, the third month in contraction in the last four months. New orders fell deeper into negative territory as employment slipped to its lowest level since December 2020. Six-month capex plans roundtripped, unwinding the improvement in August, near its lowest levels since 2016.

The Week Ahead: The focal point in the week ahead will be the two-day FOMC meeting scheduled to kick-off on Tuesday. After last week's stronger than expected CPI report markets are solidly expecting a rate hike of 75 basis points. The Fed will also release an updated summary of economic projections including a new "dot plot" which is expected to give insight into policymakers' expectations about the path and the magnitude of future hikes. On the data front, reports of interest include August Housing Starts and Building Permits, Existing Home Sales during August, the Index of Leading Economic Indicators for August, and the preliminary reading of the S&P Manufacturing PMI. Earnings reports will begin to slow creep back into the picture with 8 members of the S&P 500 scheduled to release results during the week.

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^{SM} 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.