September 12, 2022

Weekly Viewpoint

Central Banks Take Center Stage, CPI on Deck

Performance for Week Ending 9.9.2022

The Dow Jones Industrial Average (Dow) finished up 2.66%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) added 3.91%, the Standard & Poor's 500 Index (S&P 500) gained 3.65% and the Nasdaq Composite Index (NASDAQ) tacked on 4.14%. Sector breadth was positive with all11 of the S&P sector groups closing higher. The Consumer Discretionary sector (+5.62%) was the best performer followed by Materials (+4.94%) and Financials (+4.38).

Index*	Closing Price 9/9/2022	Percentage Change for Week Ending 9/9/2022	Year-to-Date Percentage Change Through 9/9/2022
Dow	32151.71	+2.66%	-11.52%
Wilshire 5000	40711.20	+3.91%	-15.99%
S&P 500	4067.36	+3.65%	-14.66%
Nasdaq	12112.34	+4.14%	-22.58%

Market Observations: 9/5/22 – 9/9/22

The major market indices finished the holiday shortened week higher, posting the first gain in the past four weeks. Driving the performance was building clarity on what the Federal Reserve (Fed) will due at the upcoming FOMC meeting on September 21, with Fed officials reiterating their promise that the central bank is "strongly committed" to fighting high inflation. Speaking at the Cato Institute, Fed Chairman Powell said the central bank is squarely focused on bringing down high inflation to prevent it from becoming entrenched as it did in the 1970s. "It is very much our view, and my view, that we need to act now forthrightly, strongly, as we have been doing, and we need to keep at it until the job is done," Mr. Powell said. While didn't give an explicit forward guidance, he also didn't say anything to challenge market expectations that the Fed would raise interest rates by 75 basis points at its Sept. 20-21 meeting. Earlier in the week, Fed Vice Chair Lael Brainard reaffirmed that the central bank would do what it takes to stifle inflation, while also noting the risks of going too far. On Friday, Fed Governor Christopher Waller said he favors "another significant" increase in interest rates when the central bank meets later this month, signaling his backing for a 75 basis-point move. “Inflation is far too high, and it is too soon to say whether inflation is moving meaningfully and persistently downward,” Waller said in remarks to the Institute for Advanced Studies in Vienna, Austria. “I support a significant increase at our next meeting on September 20 and 21 to get the policy rate to a setting that is clearly restricting demand.” Waller suggested that after this month’s meeting, the Fed will shift more toward data dependency. “Future decisions on the size of additional rate increases and the destination for the policy rate in this cycle should be solely determined by the incoming data and their implications for economic activity, employment, and inflation,” he noted.

It's Not Just the Fed Raising Rates: Last week, the European Central Bank raised its key interest rate by 75 basis points, in an effort to aggressively battle record levels of inflation even as an energy crisis puts Europe on the brink of recession. The central bank said in a statement that it would increase its key rate to 0.75% from zero—its second hike this year following a 50-basis-point rise in July—and signaled that further rises were likely this year. The increase mirrors recent moves by other major central banks, including the Federal Reserve. Also last week, the Bank of Canada raised its policy rate by 75 basis points to 3.25%, a 14-year high.

Beige Book Report: The release of the Fed’s Beige Book, which is typically released about two weeks ahead of each FOMC meeting, said US economic growth prospects were weak and set to slump further over the next year, while price growth showed signs of decelerating. “The outlook for future economic growth remained generally weak, with contacts noting expectations for further softening of demand over the next six to twelve months,” according to the report. Price levels “remained highly elevated,” but nine districts reported some degree of moderation in their rate of increase, the report showed.

Economic Data: The Institute for Supply Management (ISM) reported that the ISM Services Index rose to 56.9 in August, from 56.7 in the prior month. The rise in the headline index was broad based, with the business activity, new orders and employment components all rising by around one point. There were further signs that supply chain pressures continue to abate, with the supplier delivery times index falling to 54.5, from 57.8, its lowest level since before the pandemic. The prices paid balance also edged lower, leaving it consistent with the view that inflation is likely to continue to retreat in the coming months. Meanwhile, the Labor Department reported initial jobless claims fell 6k to 222k in the week ended September 3, below the consensus estimate of 235k and the lowest level since late May. Claims for the prior week were revised down by 4k to 228k. The latest week's data pushed the four-week moving average for initial claims down 8k to 233k, the lowest level since early July.

The Week Ahead: The focal point in the week ahead will be the release of the Consumer Price Index (CPI) data on Tuesday. According to Bloomberg, the headline CPI is expected to decline slightly (-0.1%) on a month over month basis while the core rate—which excludes food and energy prices—is expected to rise 0.3%. The recent slump in commodities, with WTI oil firmly below $100 per barrel throughout the month, is likely to put downward pressure on the headline number. However, the resilience of the labor market is among the factors that could lift the core gauge higher. This CPI report will also be the last one before the Fed's next meeting on September 21. On the consumer front, retail sales data for August will be released on Thursday with the Bloomberg consensus calling for a flat (0.0%) month-over-month reading. The Fed speaking calendar will be nonexistent as Fed officials will be locked up by the traditional blackout period ahead of Fed meetings.

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 IndexSM 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.