

August 8, 2022

Weekly Viewpoint

Broader Market Posts Third Straight Weekly Gain

Performance for Week Ending 8.5.2022

The Dow Jones Industrial Average (Dow) finished down 0.13 percent, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 0.78 percent, the Standard & Poor's 500 Index (S&P 500) gained 0.36 percent and the Nasdaq Composite Index (NASDAQ) tacked on 2.15 percent. Sector breadth was mixed with 6 of the S&P sector groups closing higher and 5 closing lower. The Technology sector (+1.95 percent) was the best performer while Energy (-6.82 percent) was the worst.

Index*	Closing Price 8/5/2022	Percentage Change for Week Ending 8/5/2022	Year-to-Date Percentage Change Through 8/5/2022
Dow	32803.47	-0.13%	-9.73%
Wilshire 5000	41439.91	+0.78%	-14.49%
S&P 500	4145.19	+0.36%	-13.03%
Nasdaq	12657.55	+2.15%	-19.10%

Market Observations: 8.1.22-8.5.22

The major market indices finished the week mostly higher, with the Nasdaq Composite leading the way on the upside. Both the Nasdaq and S&P 500 have closed higher for three consecutive weeks. Despite the gains, trading was very choppy as the stronger than expected July Payroll report eased recession fears but cleared the path for the Federal Reserve to raise rates sharply at its next meeting.

July Payroll Report: The Labor Department reported that nonfarm payrolls in July expanded by 528K, more than double the consensus forecast of 250K. June payrolls were also revised upward to 398K from the initial estimate of 372K. The unemployment rate dipped to 3.5 percent from 3.6 percent in June and matched the pre-pandemic low. The data cast doubt that the US economy, despite contracting for two consecutive quarters and meeting the 'technical' definition of recession, is currently in a recession. The one trouble spot, at least when it comes to the Fed, was the uptick in average hourly earnings which rose at a 5.2 percent year-over-year pace, ahead of expectations for a modest slowdown to 4.9 percent year-over-year. For the Fed, the strong payroll growth and elevated wages are a clear signal that further tightening of monetary policy will continue to be the appropriate path.

Fed Not Done Yet: Fed speak last week made clear that policy tightening will continue. Cleveland Fed President Loretta Mester said she "would need to see 'compelling evidence' that inflation is retreating, including several months of declining readings, before she could conclude that inflation has peaked. 'I will need to see several months of sustained downward monthly readings of inflation. I have not seen that yet.'" Meanwhile, in a separate speech Chicago Fed President Charles Evans said "policy makers are 'probably at least a couple of reports away' from seeing the kind of improvement in the inflation data that would reinforce the notion that they are on the right track with monetary tightening." San Francisco Fed President Mary Daly added "'we are still resolute and completely united' in the objective of getting inflation down around the 2 percent inflation target." Between now and the September 20/21 FOMC meeting, the Fed will have the ability to dissect two more Consumer Price Index reports (Aug 10, Sep 13).

Q2 Earnings Season: With well over half the members of the S&P 500 already reporting, second quarter results continue to trend at a better than feared pace. Through Friday, 431 members of the S&P 500 have reported results with over 74 percent surprising to the upside. Aggregate earnings for the group are up 8.4 percent, moderately above the 4 percent consensus estimate from early June. The strongest quarterly results are coming from the Energy, Industrials, and Materials. When all is said and done, S&P 500 second quarter earnings are currently expected to rise by 7.6 percent, solidly higher than the 4 percent pace expected at the start of earnings season.

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 hot, the Fed is likely to continue to hike rates, although the recent string of aggressive hikes could begin to moderate at future meetings.

The Week Ahead: All eyes will be focused on the release of the Consumer Price Index (CPI) on Wednesday. According to Bloomberg, the headline CPI is expected to rise 0.2 percent on a month over month basis, down from 1.3 percent month-over-month in June. On a year-over-year basis the headline number is expected to rise by 8.7 percent (down from 9.1 percent in June). The core reading (which exclude food and energy prices) is forecast to rise 0.5 percent month-over-month and 6.1 percent on a year-over-year basis. Elsewhere, the University of Michigan consumer survey for August will be another focal point for investors. The inflation expectations component will be in the spotlight as gas prices have been easing in recent weeks and the Fed has signaled its attention to the metric. The earnings calendar will continue to wind down with just 23 members of the S&P 500 scheduled to report results. The Fed speaking calendar will be relatively light with just three events 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 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.

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