WEEKLY MARKET UPDATE, MAY 16, 2022

GENERAL MARKET NEWS

- The U.S. Senate confirmed Federal Reserve (Fed) Chair Jerome Powell to his second term last week as the U.S. continues to grapple with its highest rate of inflation in 40 years. With the FOMC June meeting approaching, incoming economic data will be closely monitored to better gauge potential interest rate paths moving forward. Fed Bank of Cleveland President Loretta Mester indicated her support for continuing an aggressive tightening policy in the coming months. "Given economic conditions, ongoing increases in the Fed funds rate are called for, and unless there are some big surprises, I expect it to be appropriate to raise the policy rate another 50 basis points [bps] at each of our next two meetings." The U.S. Treasury yield curve saw a modest steepening last week. The 2-year, 5-year, and 10-year U.S. Treasury yields dropped 15 bps (to 2.56 percent), 19 bps (to 2.82 percent), and 7 bps (to 2.85 percent), respectively. The 30-year U.S. Treasury yield remained flat at 3 percent.

- Global markets continued their sell-off last week as headline inflation estimates in the U.S. came in above expectations. Headline inflation, which measures inflation across all products, came in at 8.3 percent versus an expected 8.1 percent. Additionally, we saw softness in consumer sentiment in the second half of the week as the University of Michigan survey indicated a larger drop than expected. Consumer staples was the only sector out of 11 to post a gain. Sectors that struggled included REITs, financials, technology, and consumer discretionary as higher rates put pressure on the housing sector and loan growth. This week will see the release of the National Association of Home Builders Housing Market Index for May, which will provide an indication of home builder confidence and of real estate sector health.

- On Wednesday, the April Consumer Price Index report was released. Consumer inflation moderated during the month, with prices increasing 0.3 percent in April after a 1.2 percent surge in March. This was slightly higher than the 0.2 percent increase economists expected but was still a notable decline in inflationary pressure. On a year-over-year basis, consumer prices rose 8.3 percent in April, down from 8.5 percent in March and slightly above the 8.1 percent increase that was expected. The slowdown in consumer inflation was partially due to the impact of relatively stable gas prices in April following a surge in March. Core consumer prices, which strip out the impact of volatile food and energy prices, increased 0.6 percent during the month and 6.2 percent year-over-year. Economists had forecast a 0.4 percent monthly and 6 percent year-over-year increase in core consumer prices. Although core consumer inflation came in modestly above forecasts, this marks a three-month low for core year-over-year inflation.

• On Thursday, the Producer Price Index report for April was released. As was the case with consumer inflation, producer inflation slowed. Headline producer prices increased 0.5 percent during the month and 11 percent year-over-year, down from an upwardly revised 1.6 percent monthly and 11.5 percent year-over-year increase in March. These results, largely in line with economist expectations, showed that inflationary pressure moderated across broad swaths of the economy. Core producer inflation also showed signs of slowing, with core producer prices increasing 0.4 percent during the month and 8.8 percent year-over-year compared with the upwardly revised 1.6 percent monthly and 9.6 percent year-over-year growth in March. Overall, both reports showed signs of slowing inflation, but much work remains to get inflation back down to the Fed's 2 percent target. Economists and investors largely expect the central bank to focus on tamping down inflationary pressure throughout the year by tightening monetary policy.

• We finished the week with Friday's release of the preliminary estimate of the University of Michigan consumer sentiment survey for May. Consumer sentiment declined by more than expected to start the month, with the index dropping from 65.2 in April to 59.1 against calls for a more modest drop to 64. This larger-than-expected decline was caused by souring consumer views on current economic conditions and future expectations. Consumer inflation expectations for the short and long term remained unchanged, which was a silver lining from an otherwise disappointing result. Historically, higher levels of confidence have helped support faster consumer spending growth, so this is a widely monitored leading indicator for future spending growth. Nonetheless, consumer spending has held up relatively well over the past year despite declining sentiment, so if confidence begins to recover in the months ahead it could lead to even faster spending growth for the rest of the year.

WHAT TO LOOK FORWARD TO

Tuesday will see the release of the April retail sales report. Retail sales are set to accelerate during the month, with forecasts calling for a 1 percent increase in sales following a 0.5 percent increase in March. Core retail sales, which strip out the impact of volatile auto and gas sales, are expected to increase 0.7 percent during the month following a 0.2 percent increase in March. If estimates hold, this would mark four consecutive months of rising headline and core retail sales. This would be an encouraging sign that consumers were willing and able to power the economic recovery through increased spending despite headwinds created by rising prices and the earlier Omicron-induced case growth. Given the importance of consumer spending on the overall economy, this will be a closely followed report that will give economists a better look at economic growth at the start of the second quarter.

Tuesday will also see the release of the April industrial production report. Production is set to increase 0.4 percent during the month following a 0.9 percent increase in March. Manufacturing production is expected to increase 0.3 percent during the month following a 0.9 percent increase in March. Both industrial and manufacturing production have shown solid growth throughout the year despite headwinds created by high levels of case growth that led to worker absenteeism at factories in January and February. If estimates hold, this would mark four straight months of production growth. One of the drivers of the strong growth in March was an improvement in capacity utilization due to returning workers. Economists expect to see further improvements in April with forecasts calling for an increase in capacity utilization from 78.3 percent in March to 78.5 percent in April. This would represent the highest utilization rate since early 2019, signaling continued recovery for the industrial and manufacturing sectors to start the second quarter.

The third and final major data release on Wednesday will be the National Association of Home Builders Housing Market Index for May. This measure of home builder confidence is expected to drop from 77 in April to 75 in May. This is a diffusion index where values above 50 indicate growth, so this result would still signal continued expansion for the month, just at a slightly slower pace. Both home builder confidence and new home construction have been strong since initial lockdowns were lifted. High levels of home buyer demand and low inventory of existing homes for sale led to a surge in new home construction throughout the pandemic. We've started to see home builder confidence decline in 2022, as rising material costs, labor costs, and mortgage rates have started to weigh on the housing industry. That said, while confidence has cooled to start the year, it remains in healthy expansionary territory.

Thursday will see the release of the April building permits and housing starts reports. These measures of new home construction are both expected to fall during the month following better-than-expected increases in March. Permits are set to drop 2.4 percent in April following a 0.4 percent increase in March. Starts are expected to decline 1.3 percent in April after rising 0.3 percent in March. The better-than-expected results in March brought starts to their highest level since 2006, while permits remained well above pre-pandemic levels. While both are expected to decline in April, this would leave the pace of new home construction well above pre-pandemic levels. Additionally, this would signal continued expansion for this important sector of the economy.

We'll finish the week with Friday's release of the April existing homes sales report. Sales of existing homes are expected to drop 2.1 percent during the month following a 2.7 percent decline in March. Existing home sales surged at the start of the year, driven, in part, by prospective buyers looking to lock in low mortgage rates. Since then, we've seen prices continue to climb along with mortgage rates; this has served as a headwind for the pace of existing home sales since February. We've seen the average 30-year mortgage rate climb from 3.27 percent at the start of the year to 5.42 percent at the end of April, which increased the cost of buying an existing home for prospective home buyers. The April existing home sales report will give us a better idea of the impact that rising mortgage rates have on prospective home buyer demand; however, the pace of existing home sales is still expected to remain above pre-pandemic levels.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–2.35%	–2.53%	–15.12%	–2.23%
Nasdaq Composite	–2.77%	–4.23%	–24.35%	–11.51%
DJIA	–2.08%	–2.28%	–10.81%	–4.62%
MSCI EAFE	–1.41%	–4.20%	–15.70%	–13.10%
MSCI Emerging Markets	–2.60%	–6.62%	–17.96%	–21.45%
Russell 2000	–2.50%	–3.76%	–19.83%	–18.54%

Source: Bloomberg

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–0.23%	–9.71%	–8.64%
U.S. Treasury	–0.28%	–8.76%	–7.52%
U.S. Mortgages	0.27%	–8.06%	–8.24%
Municipal Bond	–1.46%	–10.15%	–9.25%

Source: Morningstar Direct

Disclosures: Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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