

Weekly market update



Chart of the week (Oct. 7, 2022)

Net Interest Cost, Percent of Tax Revenues & Average Annual 10-Year Treasury Yields



This week, it was reported the national debt surpassed the \$31 trillion mark. With continuing deficit spending, this number will grow, albeit at a much slower pace. The Fed responded to the onset of the pandemic with accommodative monetary policy, while Congress passed multiple rounds of fiscal stimulus, all to reduce the risk of an extended period of negative economic growth and elevated unemployment.

While their actions successfully avoided this risk, we now have higher debt levels and inflation causing the Fed to raise interest rates to slow the economy and cool inflation. This week's chart shows a forecast of budgeted tax revenues going to service current and expected debt levels as interest rates rise.

Though we are not back to levels seen in the early 1980s, the direction we are going indicates debt service will be a growing headwind to the budget process in Washington in the years to come. The level spent on debt service remained low in recent years, even as total debt increased rapidly, because interest rates were pegged near 0% on the short end and longer-term rates declined to very low levels. Looking forward, we now have a large amount of debt and rapidly increasing rates.

Roughly one-third of the Treasury's outstanding debt will mature in the next three years. With the rate increases we are seeing today, this will impact overall debt service reasonably quickly and continue to increase even if the Federal Reserve slows and eventually stops raising rates.

Some variables could impact this forecast. The amount of future debt and the level of interest rates will be key inputs. But, it seems relatively certain Congress will be dealing with interest expense as a bigger portion of tax revenues, which could limit budgetary flexibility in future fiscal years.

Weekly market update



Commentary (Oct. 7, 2022)

Domestic Equities

- U.S. stocks held on to gains for the week after a sharp rally at the beginning of the week faded on Thursday and Friday.
- The jobs report out Friday showed some signs of a cooling labor market but not enough to change expectations for rate hikes for the rest of the year. Employers added fewer jobs than expected, but the unemployment rate fell to 3.5%, returning to a multi-decade low.
- Oil prices have been back on the rise, adding to inflation concerns. Brent crude gained over 10% this week as OPEC decided to cut output.
- Shares of chip makers fell sharply amid warning that demand for computers and smartphones is declining from Advanced Micro Devices' report out Thursday. Additionally, the U.S. announced new export restrictions on Friday aimed at preventing American technology from advancing China's military power.

Bonds

- U.S. Treasury yields moved higher for the week following stronger-than-expected employment data and hawkish comments from several Federal Reserve officials.
- Credit markets initially rebounded strongly to start the week, but returns faded mid-week as risk assets sold-off on more aggressive rate hike expectations. Despite pressure from higher rates, high yield bonds still managed to post positive returns for the week and outperformed investment grade corporates by more than 1%.
- In international markets, the Royal Bank of Australia (RBA) increased its primary policy "cash rate" by 0.25% to 2.6% but slowed the pace of its rate hikes. On Friday, the beleaguered European bank Credit Suisse tried to quell market fears concerning the bank's solvency by offering to buy back approximately \$3 billion of its bonds.

International Equities

- Investors found more reasons for optimism this week amid renewed speculation that global central banks could moderate their aggressive policies to prevent a hard economic landing.
- Foreign developed markets rebounded with strong gains seen across Europe and Pacific Rim markets. Australian stock rallied as the country's central bank surprised the market by raising interest rates by a smaller-than-expected 0.25% as policymakers seek to find a balance between taming inflation and maintaining economic growth.
- Emerging markets snapped a four-week losing streak as most markets across Asia, Eastern Europe and Latin America all move higher. Geopolitical tensions rose in Asia after North Korea fired two suspected short-range ballistic missiles toward waters off its east coast, adding to a barrage of tests in the last two weeks.

Economics

- The Bureau of Labor Statistics (BLS) September Employment Situation report indicated total non-farm payrolls increased by 263k in September. The leisure and hospitality, and healthcare sectors increased the most in the month. The total employed persons rose to 153m, an increase of 514k over the pre-pandemic level, and the unemployment rate declined to 3.5%.
- The BLS Job Openings and Labor Turnover Survey indicated job openings declined to 10.1 million in August, 1.1 million fewer than July. Hires and separations were both little changed at 6.3m and 6.0m, respectively.
- The Producer Price Index and FOMC minutes will be released on Wednesday, the Consumer Price Index will be released on Thursday, and retail sales will be released on Friday.

Weekly Market Update

For Week Ending October 07, 2022

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	29,296.79	-0.9%	-18.3%	-14.2%
S&P 500 Index	3,639.66	-1.7%	-23.3%	-16.5%
NASDAQ	10,652.40	-2.5%	-32.2%	-27.1%
S&P 400 Midcap Index	2,266.89	-0.2%	-19.4%	-14.6%
S&P 600 Smallcap Index	1,093.73	0.1%	-21.1%	-18.4%
MSCI EAFE	5,719.36	-0.3%	-26.2%	-23.9%
MSCI Emerging Markets	454.23	1.0%	-26.2%	-27.4%
Bloomberg US Agg	2,005.95	-0.3%	-14.8%	-14.6%
Bloomberg Municipal 5 Yr	456.69	0.4%	-7.7%	-7.6%
Bloomberg US Corporate	2,868.46	0.2%	-18.6%	-18.1%
Bloomberg Gbl Agg ex US Hdg	518.55	-1.4%	-10.6%	-10.2%
Bloomberg High Yield	2,128.30	1.4%	-13.5%	-12.7%
MSCI US REIT Index	1,770.34	-5.5%	-31.6%	-21.7%
Bloomberg Commodity Index	252.90	3.0%	18.3%	14.3%

Key Rates

	Last Price/Yield	Prior Week	Year End	Year Ago
Fed Funds Target	3.25%	3.25%	0.25%	0.25%
3-Month Treasury	3.33%	3.25%	0.06%	0.04%
1-Year Treasury	4.22%	3.93%	0.39%	0.09%
2-Year Treasury	4.31%	4.28%	0.73%	0.31%
5-Year Treasury	4.14%	4.09%	1.26%	1.02%
7-Year Treasury	4.03%	3.98%	1.44%	1.36%
10-Year Treasury	3.88%	3.83%	1.52%	1.57%
30-Year Treasury	3.84%	3.78%	1.90%	2.13%

Consumer Rates

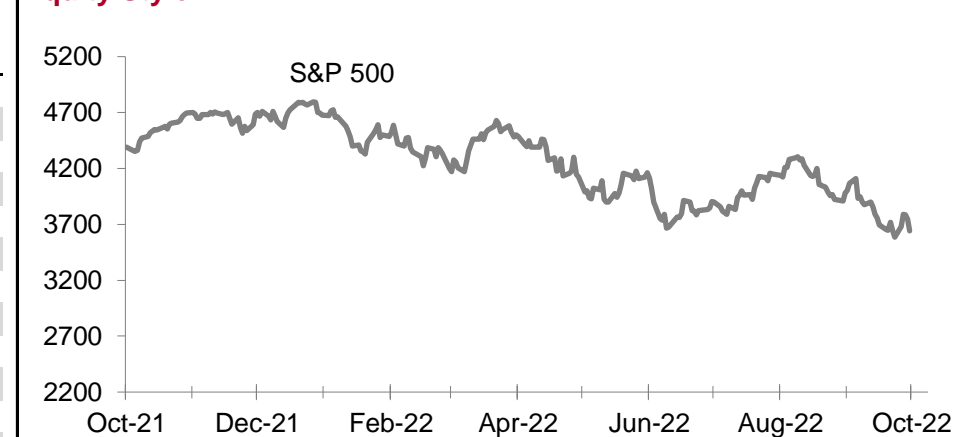
1-Year CD	4.98%	4.83%	0.57%	0.16%
30-Year Mortgage	7.05%	7.06%	3.27%	3.15%
Prime Rate	6.25%	6.25%	3.25%	3.25%
3-Month LIBOR	3.91%	3.75%	0.21%	0.12%

Commodities

Gold	1,694.82	1,660.61	1,829.20	1,755.78
Crude Oil (WTI)	92.64	79.49	72.78	71.07
Gasoline	3.91	3.83	3.38	3.29
Natural Gas	6.75	6.77	3.64	4.01
Copper	3.39	3.41	4.43	4.19

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	15.59	16.11	3.91	2.39
S&P 500	16.07	17.70	3.63	1.81
S&P 500 Value	13.85	15.30	2.57	2.53
S&P 500 Growth	19.43	21.28	6.55	1.04
NASDAQ	13.75	14.72	3.39	2.33
S&P Midcap 400	12.23	13.57	2.10	1.85
S&P Smallcap 600	11.92	13.31	1.65	1.60
MSCI EAFE	11.24	11.60	1.40	3.76
MSCI Emerging Markets	10.73	9.90	1.33	3.57

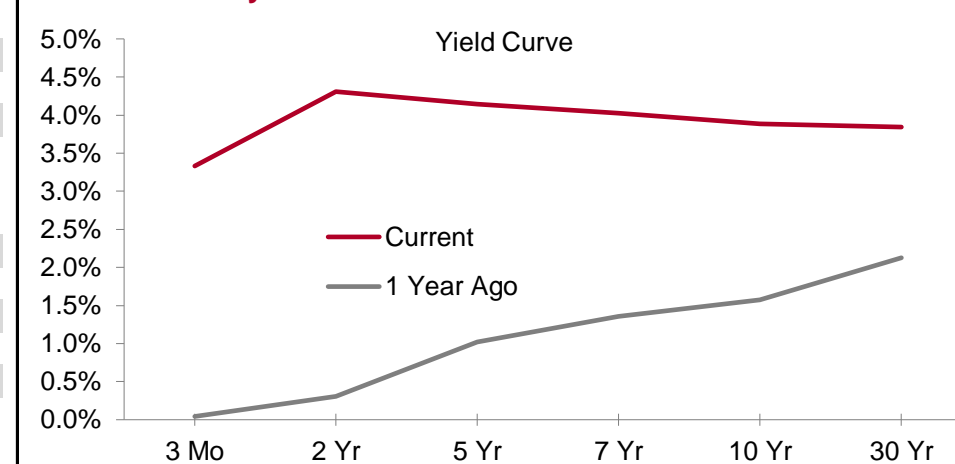
Equity Style



	1 Month*				Year to Date*		
	Value	Core	Growth		Value	Core	Growth
Large	-9.49	-11.07	-12.71	> 10%	-15.26	-23.28	-30.45
Mid	-9.68	-9.31	-8.92	0% - 10%	-15.59	-19.45	-23.25
Small	-8.37	-8.21	-8.04	< 0%	-17.58	-21.10	-24.52

*S&P Indices

Fixed Income Style



	1 Month*				Year to Date*		
	Short	Interm.	Long		Short	Interm.	Long
Govt	-1.33	-2.54	-7.06	> 10%	-4.61	-8.89	-29.61
Corp	-1.48	-4.60	-6.68	0% - 10%	-4.66	-18.85	-29.17
HY	-1.12	-2.46	-5.45	< 0%	-5.89	-12.87	-24.77

*Bloomberg Barclays Indices.

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	8.3%	5.3%
CPI Core Inflation	6.3%	4.0%
Personal Consumption Exp (PCE) Core	4.9%	3.9%

Jobs

Unemployment Rate (U3)	3.5%	4.7%
Broader Unemployment Rate (U6)	6.7%	8.5%
JOLT Survey (in millions)	10.05	10.63
Jobless Claims (000's)	219	340
Change in Non-Farm Payroll (000's)	263	424
Average Hourly Earnings (Y/Y % Change)	5.0%	4.8%

Consumer & Spending

Consumer Confidence (Conf Board)	108.0	109.8
Consumer Spending (\$ Bil)	17,470	16,146
Consumer Credit (\$ Bil)	4,680	4,332
Retail Sales (\$ Bil)	683	626

Housing

Housing Starts (000's)	1,575	1,576
Case-Shiller Home Price Index	307.45	265.57

U.S. Productivity

Real Gross Domestic Product (\$ Bil)	19,895	19,544
Quarter over Quarter Change	-0.6%	7.0%
Year Over Year Change	1.8%	12.5%
ISM Manufacturing	50.90	60.50
Capacity Utilization	79.96	78.23
Markit US Composite PMI	49.50	55.00

U.S. General

Leading Economic Indicators	116.2	117.4
Trade Weighted Dollar Index	127.7	114.5
EUR / USD	0.97	1.16
JPY / USD	145.14	111.63
CAD / USD	0.73	0.80
AUD / USD	0.64	0.73

S&P 500 Sector Returns

	1 Month	YTD
Energy	0.66%	49.97%
Utilities	-16.96%	-8.82%
Consumer Staples	-9.24%	-11.89%
Health Care	-6.26%	-12.50%
Industrials	-9.90%	-18.18%
Financials	-10.02%	-20.11%
Materials	-10.36%	-21.92%
Consumer Discretionary	-14.48%	-31.10%
Information Technology	-13.18%	-31.39%
Real Estate	-19.94%	-32.62%
Communication Services	-12.81%	-38.29%

Source: Bloomberg

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