

MARKET VIEW WEEKLY

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ECONOMIC REVIEW¹

- April retail and food service sales rose 8.2% from a year earlier and a seasonally adjusted 0.9% from March, according to the U.S. Census Bureau. Those gains were in line with what economists projected.
- The Leading Economic Index (LEI) for April decreased -0.3% from the prior month.
 - The index is still up 4.7% from April of 2021.

How does this impact you?

- Impact of Retail Sales and LEI
 - Despite volatile swings in risk assets, continued consumer spending, which accounts for 70% of domestic economic activity, suggests strong underlying fundamentals can support the real economy despite the collapse in financial markets.
 - Continued spending despite 40-year high inflation illustrates a resilient consumer capable of supporting economic activity.
 - LEI contracted in the last month primarily due to a drawdown in stock prices, an important input for the model.
 - However, the Conference Board projects the US economy will resume expansion in the second quarter following the first quarter's real GDP contraction.



A LOOK FORWARD¹

- Personal Consumption Expenditures (PCE) will be released on Friday and is expected to moderate to 6.2% from 6.6% on a year-over-year basis.
 - On a month-over-month basis, PCE is expected to increase 0.2%, much lower than the 0.9% increase seen last month.
- The final reading of the University of Michigan Consumer Sentiment Index for May will also be released on Friday and is expected to fall to 59.1 from 65.2 in April.

How does this impact you?

- Impact of Consumption & Sentiment
 - A slowdown in PCE, the Federal Reserve's preferred price gauge, would further support the budding market view that peak inflation is already behind us.
 - Major moderations in PCE could lead the Fed to slow the rise in rates, though most market participants do not expect this in the near term – the central bank is committed to returning interest rates to neutral “expeditiously.”
 - U.S. consumer sentiment slumped to its lowest level in nearly 11 years in early May as worries about inflation persisted.
 - However, consumer spending remains underpinned by a strong labor market and massive savings, which should keep the domestic economy expanding.

MARKET UPDATE

Market Index Returns as of 5/20/22 ¹	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-3.00%	-13.70%	-17.67%	-4.86%	13.04%	12.38%
NASDAQ	-3.77%	-20.05%	-27.20%	-15.54%	14.75%	14.35%
Dow Jones Industrial Average	-2.78%	-9.58%	-13.29%	-6.53%	9.08%	10.89%
Russell Mid-Cap	-2.01%	-12.23%	-17.21%	-9.82%	10.02%	9.58%
Russell 2000 (Small Cap)	-1.05%	-14.21%	-20.67%	-18.79%	6.47%	6.69%
MSCI EAFE (International)	1.50%	-9.05%	-14.43%	-12.45%	4.46%	3.54%
MSCI Emerging Markets	3.13%	-9.05%	-15.39%	-20.33%	3.74%	3.14%
Bloomberg Barclays US Agg Bond	0.59%	-3.45%	-9.18%	-8.11%	0.34%	1.18%
Bloomberg Barclays High Yield Corp.	-0.69%	-6.51%	-11.03%	-8.01%	1.95%	2.96%
Bloomberg Barclays Global Agg	0.99%	-5.47%	-11.29%	-13.02%	-1.18%	0.13%

OBSERVATIONS

- U.S. equities turned in another volatile week with the S&P 500 giving up -3.00% and the tech-heavy NASDAQ retreating even further, down -3.77%.
- Surprisingly, small caps held up better, though still fell just over a percent (-1.05%).
- International stocks outperformed, the developed market index, MSCI EAFE, grew by +1.50%.
- An unexpected bright spot, Emerging market stocks bounced back strongly with MSCI EM gaining +3.13%.
- U.S. investment grade bonds were positive for the second week in a row with the Bloomberg Barclays U.S. Aggregate Bond index up +0.59%.

BY THE NUMBERS

DOWN FOR THE YEAR - After 20 weeks of calendar year 2022, the S&P 500 is down 17.7% YTD (total return) through the close of trading last Friday 5/20/2022. The S&P 500 consists of 500 stocks chosen for market size, liquidity and industry group representation. It is a market value weighted index with each stock's weight in the index proportionate to its market value (source: BTN Research).

NEAR-BEAR SIGHTING - The S&P 500 closed at 3901 last Friday 5/20/2022, down 18.7% from its all-time closing high of 4797 set on 1/03/2022. The S&P 500 has closed at least 20% below a previous closing high 6 times in the last 50 years, i.e., since 1972. The most recent "bear" was a 33-day tumble of 33.9% that bottomed on 3/23/2020 or 26 months ago in the early days of the pandemic (source: BTN Research).

STOCKS AND RATE HIKES - Between 12/16/2015 and 12/19/2018, the Fed raised interest rates 9 times. Each rate hike was 0.25 percentage points, a total increase of 2.25 percentage points. That took the Fed's target short-term rate from 0% to 2.25%. From the close of trading on 12/16/2015 to the close of trading on 12/19/2018, the S&P 500 gained +28.6% (total return) over the 3-years, or +8.7% per year (source: BTN Research).

BIG JUMP - The yield on the 10-year T-note has increased 1.29 percentage points from 12/31/2021 (1.50%) to Friday's close 5/20/2022 (2.79%). The yield on the 10-year T-note has increased at least 1.29 percentage points over the course of 8 calendar years in the last 50 years, most recently in 2009 (source: Treasury Department).

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Economic Definitions

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures.

Conference Board Leading Economic Index: Leading indicators include economic variables that tend to move before changes in the overall economy. These indicators give a sense of the future state of an economy.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: 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.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

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¹ Data obtained from Bloomberg as of 5/20/2022