

Market Insights - September 2, 2022

EQUITY MARKETS RETREAT ON MORE HAWKISH FED COMMENTS AS JOB OPENINGS HIT NEAR RECORD LEVELS AND OIL PRICES DROP

- The week brought us the end of August, but it didn't matter as equities retreated just about every day this week, closing the month of August and the week with big losses – the third consecutive week of healthy declines
- When the final bell rung on Friday, signifying the start of the long Labor Day weekend (markets are closed Monday), the small-cap Russell 2000 had dropped 4.7% on the week, followed by the tech-laden NASDAQ (-4.2%), the large-cap S&P 500 (-3.3%) and the mega-cap, 30-stock DJIA (-3.0%)
- The consensus view was that most of the selling was driven by fear of the Fed's rate cuts, after a very hawkish speech from Fed Chair Jerome Powell and a public acknowledgement from a Fed President suggesting that the fed funds rate should be above 4.00% early next year and there might not be a rate cut in 2023
- Every single one of the 11 S&P 500 sectors finished down for the week, with the range being up to 5% as the Materials sector was the worst performer
- The more defensive Utilities sector was the best performer on the week, and it was off 1.6%
- The August employment report showed that 315,000 jobs were added to nonfarm payrolls, average hourly earnings were up 5.2% year-over-year, and the unemployment rate went up to 3.7%
- The 2-year Treasury yield retreated to 3.40% but the 10-year Treasury advanced to 3.20%

Weekly Market Update – September 2, 2022

	Close	Week	YTD
DJIA	31,318	-3.0%	-13.8%
S&P 500	3,924	-3.3%	-17.7%
NASDAQ	11,631	-4.2%	-25.7%
Russell 2000	1,810	-4.7%	-19.4%
MSCI EAFE	1,823	-2.6%	-22.0%
Bond Index*	2,097.46	-1.10%	-10.9%
10-Year Treasury	3.20%	+0.20%	+1.7%

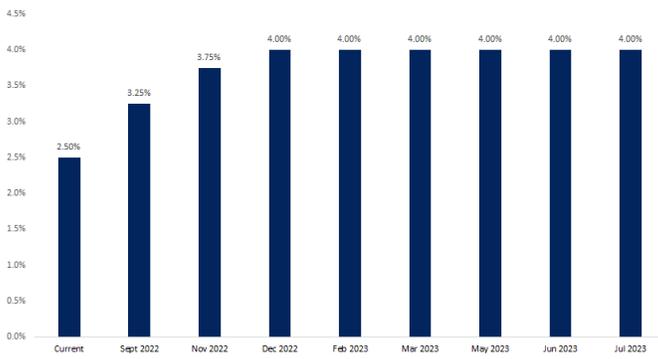
*Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results

Stocks Retreat Again on Rate Worries

Stocks ended the month of August and started the month of September on a losing streak, finishing lower for the month and for the third consecutive week. The driving force behind the selling was mostly attributed to the very-hawkish messages from Fed, including Fed Chair Jerome Powell's recent speech at Jackson Hole on August 26th, but also comments from a Fed President suggesting that rates should be around 4.00% by early next year.

And according to the CME FedWatch tool, Wall Street is counting on the Fed to follow-through with its rate hikes:

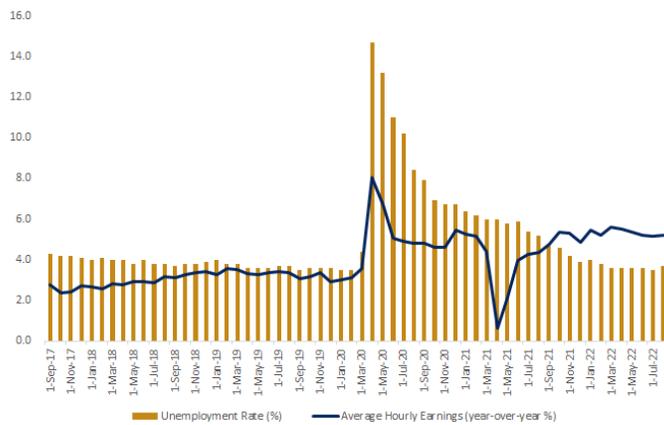
Market expectations for fed funds rate by meeting



As such, Wall Street sold out of the growth and tech names, but also started selling the value names too. Value stocks did outperform their growth counterparts, but not by much, and the large-caps outperformed the smaller caps. Energy stocks struggled as oil prices dipped below \$90/barrel West Texas Intermediate crude, the U.S. benchmark.

Some good economic news this week was the August jobs report from the Department of Labor, showing that there were 315,000 jobs added last month, a number welcomed by Wall Street. Further, the unemployment rate rose to 3.7% from 3.5% and the labor force participation rate increased.

U.S. unemployment rate vs. average hourly earnings (%)



The August jobs report was just a few days after the Job Openings and Labor Turnover Survey for July which showed that that job openings unexpectedly increased to near record levels.

U.S. Markets Had a Rough August

U.S. equity markets dropped significantly in the month of August, giving back many of the gains from July, as the final trading day of the month saw each of the major U.S. equity indices settle at its lowest monthly point. And the retreat in August was in keeping with monthly declines in January, February, April, May and June – as 75% of 2022’s monthly gains have been red.

In keeping with U.S. equity markets, developed markets outside the U.S. turned in rough performance in August too – as 37 of the 37 developed markets tracked by MSCI were negative. Performance in the emerging markets tracked by MSCI were mixed, however, as 27 of those 46 declined.

For the month of August:

- The DJIA lost 3.9%;
- The S&P 500 lost 4.0%;
- NASDAQ lost 4.5%; and
- The Russell 2000 lost 2.1%.

JOLTS Report Shows Job Openings Near Record Levels

On Tuesday, August 30th, it was reported that:

- The number of job openings was little changed at 11.2 million on the last business day of July.
- Hires and total separations were little changed at 6.4 million and 5.9 million, respectively.
- Within separations, quits (4.2 million) and layoffs and discharges (1.4 million) were little changed.

Job Openings

- Job openings increased in transportation, warehousing, and utilities (+81,000); arts, entertainment, and recreation (+53,000); federal government (+47,000); and state and local government education (+42,000).
- Job openings decreased in durable goods manufacturing (-47,000).

Hires

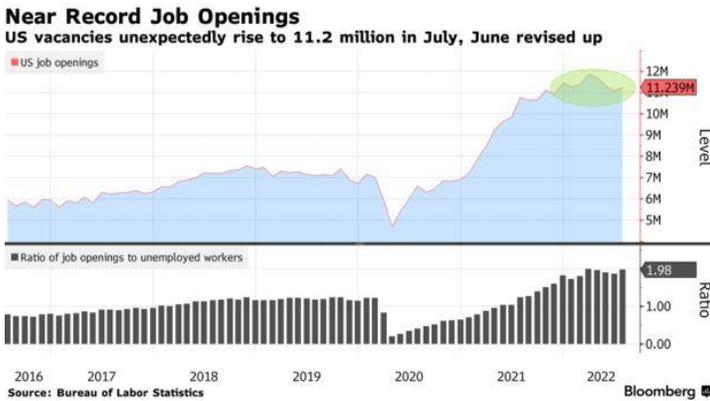
- Hires were little changed in all industries.

Separations

Total separations includes quits, layoffs and discharges, and other separations. Quits are generally voluntary separations initiated by the employee. Therefore, the quits rate can serve as a measure of workers’ willingness or ability to leave jobs. Layoffs and discharges are involuntary separations initiated by the employer. Other separations includes

separations due to retirement, death, disability, and transfers to other locations of the same firm.

- The number and rate of total separations were little changed at 5.9 million and 3.9%, respectively. Total separations increased in transportation, warehousing, and utilities (+65,000).
- The number and rate of quits were little changed at 4.2 million and 2.7%, respectively. Quits decreased in health care and social assistance (-73,000) and in state and local government education (-21,000). Quits increased in transportation, warehousing, and utilities (+39,000).
- The number of layoffs and discharges was little changed at 1.4 million and the rate was unchanged at 0.9%. Layoffs and discharges were little changed in all industries.
- The number of other separations was little changed in July at 352,000. Other separations increased in wholesale trade (+10,000); information (+8,000); and nondurable goods manufacturing (+6,000). Other separations decreased in accommodation and food services (-25,000) and in federal government (-4,000).

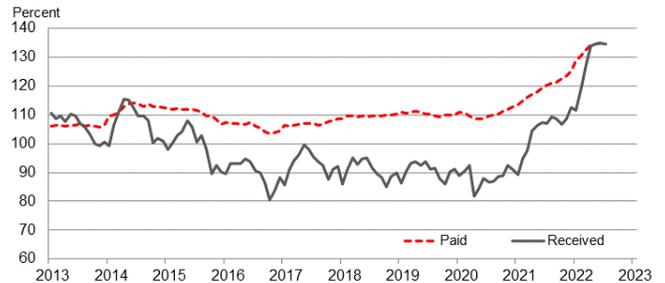


Farm Prices for July Down

On the final day of the month, the U.S. Department of Agriculture announced farm prices for July, including that:

- The July Prices Received Index decreased 0.1% from June but increased 26% from July 2021.
- The Crop Production Index was down 1.2% from last month but up 16% from the previous year.
- The Livestock Production Index increased 2.2% from June and 38% from July last year.
- Producers received lower prices during July for broilers, soybeans, wheat, and corn but higher prices for market eggs, hay, hogs, and cattle.
- In July, there was decreased monthly movement for milk, cattle, oranges, and broilers and increased marketing of wheat, grapes, hay, and cotton.

**Received and Paid Indexes,
 All Items by Month –
 United States: 2011=100**



USDA – NASS
 08/31/2022

Further, the USDA reported that the July Prices Paid Index for Commodities and Services, Interest, Taxes, and Farm Wage Rates (PPITW) is up 0.5% from June 2022 and 13% from July 2021. Higher prices in July for hay & forages, feeder cattle, other services, and herbicides more than offset lower prices for nitrogen, diesel, mixed fertilizer, and feed grains.

Sources: [bls.gov](https://www.bls.gov); [usda.gov](https://www.usda.gov); [cmegroup.com](https://www.cmegroup.com); [msci.com](https://www.msci.com); [fidelity.com](https://www.fidelity.com); [nasdaq.com](https://www.nasdaq.com); [bls.gov](https://www.bls.gov); [wsj.com](https://www.wsj.com); [bls.gov](https://www.bls.gov); [morningstar.com](https://www.morningstar.com); [census.gov](https://www.census.gov);