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EQUITIES SUFFER AGAIN AS FED RAISES RATES BY 75 BPS AGAIN

- The month of September is usually the worst-performing month of the year for stock markets and the last two weeks are certainly contributing to that trend
- On the week, the small-cap Russell 2000 plunged 6.8%, followed by NASDAQ's steep drop of 5.1%, then the S&P 500's ugly retreat of 4.6% and finally the DJIA's awkward back-pedaling of 4.0%
- This week, the main worry-theme was rising rates as the 2-year Treasury yield jumped to 4.21% and the 10-year Treasury yield leapt to 3.70%
- The worry was driven by the Fed and its FOMC vote to raise the target range for the fed funds rate by 75 basis points to 3.00-3.25%
- Fed Chair Powell hit a very hawkish note when he said that he expects the Fed will get to north of 4% relatively quickly and that the moves by the Fed are likely to cause pain
- Of the 11 S&P 500 sectors, all of them lost ground, with Consumer Discretionary losing a whopping 9% and Consumer Staples "only" losing about 2%
- For the week, the U.S. Dollar Index surged 3.0% to 113.04
- WTI Crude dropped over 5% and ended the week at $78.74/barrel

Weekly Market Update – September 23, 2022

	Close	Week	YTD
DJIA	29,590	-4.0%	-18.6%
S&P 500	3,693	-4.6%	-22.5%
NASDAQ	10,868	-5.1%	-30.5%
Russell 2000	1,678	-6.8%	-23.3%
MSCI EAFE	1,688	-1.9%	-23.4%
Bond Index*	2,036.26	-0.90%	-14.0%
10-Year Treasury	3.70%	+0.38%	+2.1%

**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 Heels of Fed's Rate Hike

Stocks had another rough week as the Fed pushed rates up by 75 basis points and suggested that more rate hikes are to come. Yes, Wall Street was banking on a rate hike – as the futures market put odds at virtually 100% that rates were going up this week – but investors were unnerved, nonetheless.

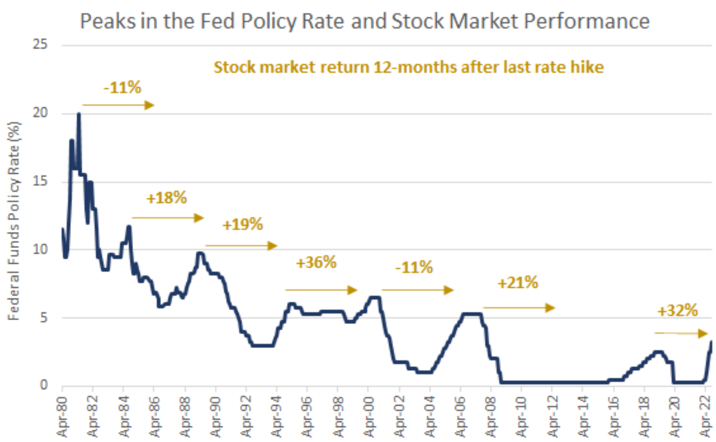
Not surprisingly, the technology-heavy NASDAQ were hit the hardest, as investors are discounting future earnings given the pace and magnitude of predicted rate hikes. For perspective, rates are at the level not seen since March 2008 – and that was when the Fed was cutting rates.

It was another rough week.

In terms of economic data, not much was positive, as we saw:

- Housing moved up, but not single-family housing
- Mortgage rates continue to rise
- Leading Indicators dropped
- Jobless claims inched up
- Existing home sales declined

If there was any silver lining to this week, it was that the markets tend to do better after the final Fed rate hike. And this week's rate gets us at least closer to that final rate hike.



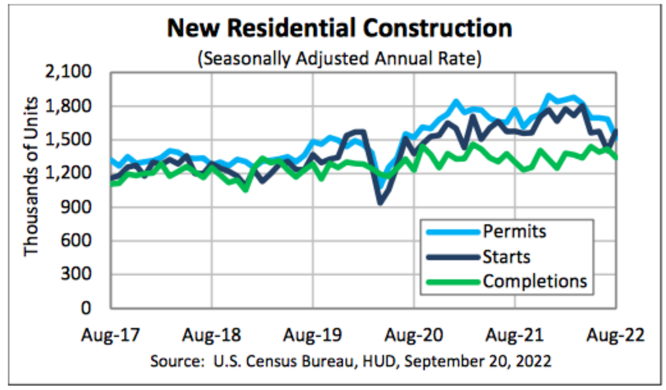
Source: FactSet

Building Permits Drop & Housing Starts Leap as Mortgage Rates Spike

On Tuesday, September 20th, the U.S. Census Bureau and the U.S. Department of Housing and Urban Development jointly announced the following new residential construction statistics for August 2022:

Building Permits

- Privately-owned housing units authorized by building permits in August were at a seasonally adjusted annual rate of 1,517,000.
- This is 10.0% below the revised July rate of 1,685,000 and is 14.4% below the August 2021 rate of 1,772,000.
- Single-family authorizations in August were at a rate of 899,000; this is 3.5% below the revised July figure of 932,000.
- Authorizations of units in buildings with five units or more were at a rate of 571,000 in August.



Housing Starts

- Privately-owned housing starts in August were at a seasonally adjusted annual rate of 1,575,000.
- This is 12.2% above the revised July estimate of 1,404,000, but is 0.1% below the August 2021 rate of 1,576,000.
- Single-family housing starts in August were at a rate of 935,000; this is 3.4% above the revised July figure of 904,000.
- The August rate for units in buildings with five units or more was 621,000.

Housing Completions

- Privately-owned housing completions in August were at a seasonally adjusted annual rate of 1,342,000.
- This is 5.4% below the revised July estimate of 1,419,000, but is 3.1% above the August 2021 rate of 1,302,000.
- Single-family housing completions in August were at a rate of 1,017,000; this is 0.4% above the revised July rate of 1,013,000.
- The August rate for units in buildings with five units or more was 318,000.

Mortgage Rates Jump

According to data compiled by Bankrate on September 23rd:

- **30-year fixed rate**: 6.33%, +0.23 vs. a week ago
- **15-year fixed rate**: 5.62%, +0.23 vs. a week ago
- **5/1 ARM rate:** 4.78%, +0.24 vs. a week ago
- **30-year fixed jumbo fixed rate**: 6.31%, +0.21 vs. a week ago

Leading Indicators Drop

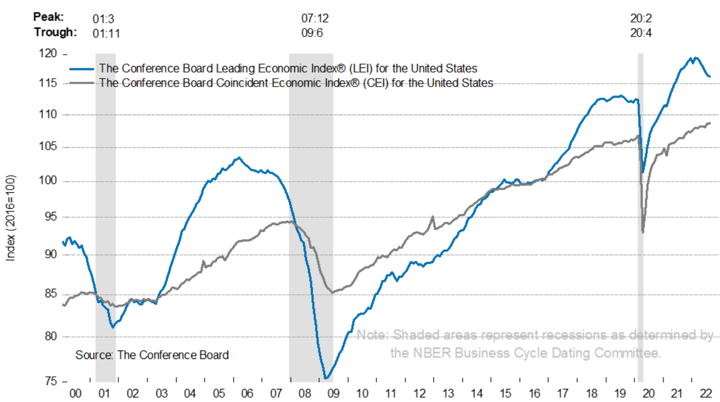
On Thursday, the Conference Board Leading Economic Index for the U.S. decreased by 0.3% in August 2022 to 116.2 (2016=100), after declining by 0.5% in July. The LEI fell 2.7% over the six-month period between February and August 2022, a reversal from its 1.7% growth over the previous six months.

From the Conference Board release:

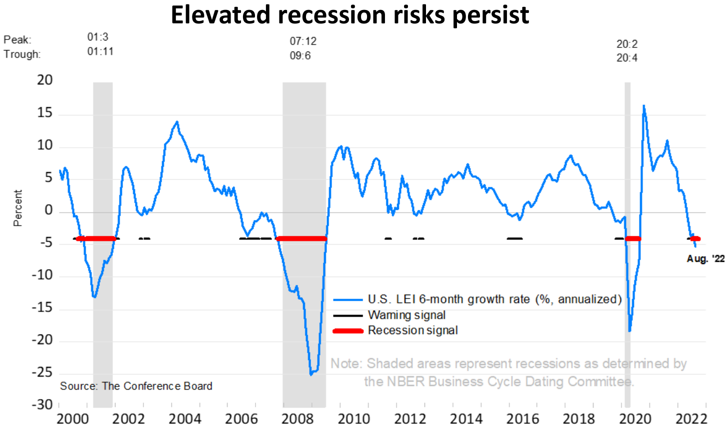
“The US LEI declined for a sixth consecutive month potentially signaling a recession. Among the index’s components, only initial unemployment claims and the yield spread contributed positively over the last six months—and the contribution of the yield spread has narrowed recently.

“Furthermore, labor market strength is expected to continue moderating in the months ahead. Indeed, the average workweek in manufacturing contracted in four of the last six months—a notable sign, as firms reduce hours before reducing their workforce. Economic activity will continue slowing more broadly throughout the US economy and is likely to contract. A major driver of this slowdown has been the Federal Reserve’s rapid tightening of monetary policy to counter inflationary pressures. The Conference Board projects a recession in the coming quarters.”

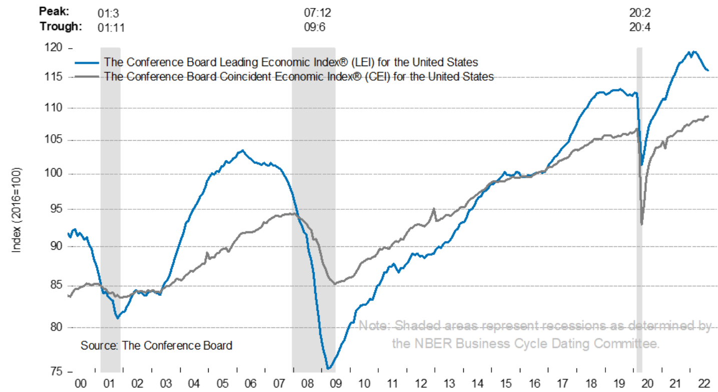
US LEI continued to decline signaling a contraction in economic activity may be imminent



Elevated recession risks persist



The long-term trajectory of the US LEI turned negative in August



Further:

- The Conference Board Coincident Economic Index for the U.S. increased by 0.1%in August 2022 to 108.7 (2016=100), after increasing by 0.5% in July.
- The CEI rose by 0.6% over the six-month period from February to August 2022, slower than its growth of 1.5% over the previous six-month period.
- The Conference Board Lagging Economic Index for the U.S. increased by 0.7% in August 2022 to 115.4

Sources: census.gov; conference-board.org; msci.com; fidelity.com;nasdaq.com; bls.gov; wsj.com; bls.gov; morningstar.com; census.gov: