

Weekly Market Update



General Market News

- The Federal Reserve (Fed) announced a 25 basis point (bps) increase in their target rate after last week's FOMC meeting. This came after an 8:1 vote with St. Louis Fed President James Bullard as the only dissenter, stating his case for a 50 bps hike. Fed Chair Jerome Powell signaled an aggressive rate path moving forward but didn't provide specific expectations to see how economic conditions develop. Aided by the Fed's rate hike, yields were up across the curve last week. The 2-, 5-, 10-, and 30-year U.S. Treasury yields were up 22 bps (1.92 percent), 22 bps (2.15 percent), 18 bps (2.17 percent), and 10 bps (2.47 percent), respectively.
- The S&P 500 posted its largest gain since November 2020 last week as investors seemed to take the Fed's rate hike as a nod of confidence for the economy. The increase was the first since 2018 and saw sectors such as consumer discretionary, technology, financials, and health care outperform. Energy, utilities, and REITs, however, were among the worst-performing sectors. West Texas Intermediate crude continued its recent slide, falling by 5.7 percent. Chinese tech names such as Alibaba (BABA) rallied as the government stated it would support the tech sector and continue to work with the U.S.
- The February Producer Price Index report was released on Tuesday. The report showed that producer prices increased 0.8 percent during the month, which was slightly lower than the 0.9 percent monthly increase that was expected. On a year-over-year basis, producer prices rose 10 percent, which was in line with expectations. Core producer prices, which strip out the impact of volatile food and energy prices, increased a more modest 0.2 percent and 8.4 percent on a year-over-year basis. Producer prices have seen high levels of inflationary pressure over the course of the past year, driven by rising material, transportation, and labor costs. As we saw with the February consumer inflation report, producers have started to pass along higher prices to consumers, which has contributed to the high levels of consumer inflation to start the year. The Fed is expected to focus on stabilizing prices throughout 2022 with tighter monetary policy.
- On Wednesday, the February retail sales report was released. Retail sales increased 0.3 percent during the month, which was slightly below economist estimates for a 0.4 percent increase. January's report was revised from an initial increase of 3.8 percent to 4.9 percent, making the modest miss for sales growth in February understandable. Despite continued sales growth, there are signs that rising gas costs have started to negatively affect spending in other sectors. Core retail sales, which strip out the impact of gas and auto sales, declined 0.4 percent against calls for a 0.4 percent increase. March's retail sales report will be an important update, providing economists with a better idea of the true impact of rising gas prices on overall spending given that gas prices have surged as a result of the Russian invasion of Ukraine.
- Wednesday also saw the release of the National Association of Home Builders Housing Market Index for March. This measure of home builder confidence fell by slightly more than expected during the month, with the index falling from 81 in February to 79 in March. This is a diffusion index, with values above 50 indicating growth, so this result was still a sign that homebuilders remain confident despite the decline. The housing sector has been one of the strongest areas of the economy throughout the pandemic, driven by high levels of home buyer demand and record-low mortgage rates. Rising mortgage rates and scant inventory of available houses for sale may serve to dissuade potential home buyers and slow sales growth; however, if home builder confidence remains near current levels, that would be enough to support strong new home construction growth.
- Wednesday's final major release was the FOMC rate decision from the Fed's March meeting. The Fed hiked federal funds rate 25 bps at this meeting, marking the first rate hike since the Fed cut interest rates to virtually zero at the start of the pandemic. The widely anticipated update signals the start of the Fed's efforts to normalize interest rates following years of supportive policy. Of the nine voting members, eight approved of the interest rate hike, with the lone dissenter calling for a more aggressive, 50 bps hike. The Fed is expected to continue methodically increasing rates this year to tamp down the economy's inflationary pressure. The Fed expects inflation to end the year well above its 2 percent target, which could lead to faster rate hikes and balance sheet reductions. Markets are currently pricing in roughly six more rate hikes for 2022, which is in line with the median Fed projection released at the meeting.

What to Look Forward To (continued)

- On Thursday, the February housing starts and building permits reports were released. These measures of new home construction came in mixed during the month. Housing starts increased 6.8 percent in February, well above the 3.8 percent increase that was expected, and permits dropped 1.9 percent against calls for a 2.4 percent decline. Permits had previously hit their highest level since 2006 in January, so the modest decline in this often volatile report wasn't a major concern. The focus was instead on housing starts, which hit their strongest pace since 2006 in February. Part of the surge in new home construction was due to the declining medical risks from Omicron, although high levels of home buyer demand and home builder confidence also helped support the impressive increase in construction. Given the continued lack of supply of available homes for sale, this report was an encouraging sign that home builders continue to see strong demand for housing and are building and investing accordingly.
- We finished the week with Friday's release of the February existing home sales report. Sales of existing homes, which account for the majority of home sales in the country, fell 7.2 percent during the month following a 6.6 percent increase in January. The February decline was slightly higher than economist estimates for a 6.2 percent drop in sales. The surge in sales in January brought the pace of home sales to a one-year high, as prospective home buyers rushed to lock in relatively low mortgage rates at the start of the year. The pullback in February was largely due to a lack of homes for sale and rising prices, as well as rising mortgage rates negatively affecting affordability. The average 30-year mortgage rate increased from 3.78 percent at the end of January to 4.3 percent at the end of February. Looking forward, rising mortgage rates and prices are expected to serve as a headwind.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	6.19	2.13	-6.05	15.66
Nasdaq Composite	8.20	1.09	-11.05	5.82
DJIA	5.53	2.71	-3.89	8.52
MSCI EAFE	5.60	-0.80	-7.26	-1.06
MSCI Emerging Markets	3.50	-3.96	-8.59	-14.17
Russell 2000	5.43	1.97	-6.86	-7.85

Source: Bloomberg, as of March 19, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-1.98	-5.16	-3.13
U.S. Treasury	-2.12	-4.61	-2.59
U.S. Mortgages	-1.58	-3.97	-3.81
Municipal Bond	-1.85	-4.88	-2.70

Source: Morningstar Direct, as of March 19, 2022



What to Look Forward To

On Wednesday, the preliminary estimate for the February durable goods orders report is set to be released. Durable goods orders are expected to fall 0.5 percent following a 1.6 percent increase in January. This anticipated drop in orders is due to a decline in volatile aircraft orders during the month. Core durable goods orders, which strip out the impact of transportation orders, are set to increase 0.5 percent in February after rising 0.7 percent in

January. If estimates hold, this would mark 12 consecutive months with core durable goods orders growth. Businesses have continued to spend and invest in order to try and meet high levels of consumer demand over the past year. Continued core durable goods order growth in February would be an encouraging sign that business investment remains strong.

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. Basis points (bps) is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev.03/22.

Authored by the Investment Research team at Commonwealth Financial Network®

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