

WeeklyMarket Update



General Market News

- The U.S. Department of Labor reported that employers added 390,000 jobs in May. At the same time, the unemployment rate remained flat at 3.6 percent. These strong employment conditions bolster the Federal Reserve (Fed)'s ability to move forward with aggressively hiking interest rates to hamper inflation. With market conditions and Fed officials' sentiments pointing to support for consecutive 50 basis point (bp) increases at the June and July meetings, focus now shifts to the September meeting and where interest rates are expected to go from there. Speaking on the matter, Fed Bank of Cleveland President Loretta Mester offered her thoughts. "If by the September FOMC meeting the monthly readings on inflation provide compelling evidence that inflation is moving down, then the pace of rate increases could slow. But if inflation has failed to moderate, then a faster pace of rate increases could be necessary," she said. "The risk of recession has risen, but because underlying aggregate demand momentum and the demand for labor are so strong, a good case can still be made." The U.S. Treasury yield curve was up last week; the 2-year, 5-year, 10-year, and 30-year rose 15 bps (to 2.73 percent), 19 bps (to 2.91 percent), 17 bps (to 2.91 percent), and 11 bps (to 3.08 percent), respectively.
- Global equities gave up some of the prior week's gains as concerns over additional central bank tightening picked up. The one exception was emerging markets, which posted gains supported by looser Covid-19 restrictions and policy support within China. Both economic data as well as commentary from Fed members and JP Morgan's Jaime Dimon prompted reassessment of last week's rally. Better-than-expected employment data led to concerns that the Federal Open Market Committee would have greater incentive to hike rates. This was coupled with commentary from Dimon, who cited a potential "hurricane" on the horizon via higher oil prices. Fed Vice Chair Lael Brainard also pushed back against a pause in Fed rate hikes in September, proposed by Fed Bank of Atlanta Raphael Bostic last week. The result saw short-term yields pick up and reducing risk within equities. Top-performing sectors last week included energy, industrials, and consumer discretionary. Sectors that struggled were health care and bond proxies via REITs, financials, consumer staples, and utilities.
- On Tuesday, the Conference Board Consumer Confidence Index for May was released. Consumer confidence declined less than expected, with the index falling from an upwardly revised 108.6 in April to 106.4 against calls for a drop to 103.6. This left the index above its recent low of 105.7 from February. Confidence has been challenged since last summer, largely due to concerns about inflation and the Covid-19 pandemic. The index hit a post-lockdown high of 128.9 last June; the declines since then highlight negative effects. Looking ahead, we'll likely need to see further signs of slower inflation before confidence returns to last summer's highs. With that being said, though confidence has been challenged over the past year, consumer spending growth has remained relatively strong, which is an encouraging sign that consumers remain willing and able to purchase goods and services despite rising concerns about the state of the economy.
- On Wednesday, the ISM Manufacturing index for May was released. The index increased more than expected, rising from 55.4 in April to 56.1 against calls for a drop to 54.5. This is a diffusion index, where values above 50 indicate expansion, so the report indicates that the manufacturing industry grew at a faster rate in May than April. As has been the case for most of the past year, high levels of demand for manufacturing goods served as a tailwind for manufacturing confidence and output in May. The better-than-expected result was primarily driven by unanticipated increases in new orders and output growth during the month. Manufacturers surveyed for this report were optimistic that demand will remain strong in the months ahead, which should support continued faster growth for the manufacturing

industry. With that being said, the report showed that manufacturers continue to face headwinds due to tangled supply chains and labor shortages. The solid reading for the index in May, however, highlights the resilient nature of the current manufacturing expansion.

- We finished the week with Friday's release of the May employment report. The report showed that 390,000 jobs were added during the month, down from the upwardly revised 436,000 that were added in April but above economist estimates for 318,000 jobs. This marks 17 consecutive months with strong job growth and is an encouraging

sign that the momentum from the economic recovery carried over into May. The jobs gains were widespread across most sectors, with leisure, business services, and education and health sectors seeing the largest job gains. The underlying data was also solid, as the unemployment rate remained at the pandemic-era low of 3.6 percent. Labor force participation increased modestly from 62.2 percent to 62.3 percent, while wage growth slowed on a monthly and year-over-year basis. Overall, this was an encouraging report that showed businesses remained confident and willing to hire despite higher labor costs.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-1.15	-0.54	-13.23	-1.47
Nasdaq Composite	-0.96	-0.55	-22.96	-12.45
DJIA	-0.83	-0.20	-8.62	-3.51
MSCI EAFE	-0.28	-0.40	-11.70	-11.67
MSCI Emerging Markets	1.77	-1.53	-13.11	-21.39
Russell 2000	-0.22	1.04	-15.70	-16.71

Source: Bloomberg, as of June 3, 2022

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.39	-9.28	-8.69
U.S. Treasury	-0.41	-8.71	-8.00
U.S. Mortgages	-0.34	-7.61	-7.91
Municipal Bond	0.18	-7.30	-6.82

Source: Morningstar Direct, as of June 3, 2022



What to Look Forward To

We'll start the week with Tuesday's release of the international trade report for April. Economists expect to see the trade deficit narrow sharply from a record \$109.8 billion in March to \$89.4 billion in April. If estimates hold, this would bring the monthly trade deficit back in line with the monthly deficits we saw in January and February. The advance report on the trade of goods during the month showed that the trade deficit for goods fell from \$125.9 billion to \$105.9 billion in April, as exports increased 3.1 percent and imports dropped 5 percent. International trade was a net detractor for overall economic growth in the first quarter, so a narrowing of the trade deficit from March's record level would be a positive sign for second-quarter GDP growth. With that said, the monthly deficit is expected to remain well above pre-pandemic levels in April due to continued logistical headwinds and the uneven pace of the global economic recovery.

On Friday, the May Consumer Price Index will be released. Economists expect to see consumer prices increase 0.7 percent during the month and 8.2 percent on a year-over-year basis. If estimates prove accurate, this would bring the pace of year-over-year consumer inflation to its lowest level in three months. Core consumer prices, which strip out the impact of volatile food and energy prices, are expected to increase by a more modest 0.4 percent during the month and

5.9 percent on a year-over-year basis. Consumer prices have faced steady inflationary pressure over the past year, as tangled supply chains, high levels of domestic demand, and an uneven global economic recovery contributed to large supply and demand mismatches across broad swaths of the economy. Looking forward, the Fed is expected to tighten monetary policy throughout the rest of the year and into 2023 to tamp down high levels of inflation.

Friday will also see the release of the preliminary estimate of the University of Michigan consumer sentiment survey for June. Economists expect to see confidence improve modestly during the month, with the index set to increase from 58.4 in May to 58.9 in June. If estimates hold, this would bring the index off of the decade low that we saw in May; however, it would still leave confidence well below the recent highs that we saw last summer. Consumer confidence has been pressured over the past year by high levels of inflation throughout the economy and rising geopolitical and market risk. Historically, lower confidence levels have been linked to slower personal spending, but consumer spending has remained solid despite lowered confidence during the past year. Looking forward, we'll likely need to see further progress in slowing the pace of inflation before confidence can rebound back to pre-pandemic levels.

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. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev. 06/22.

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