Weekly Market Update, May 31, 2022

Presented by [Thomas C. Chester, CFP®, AIF®, CPFA®](#)

General Market News

- The Federal Open Market Committee (FOMC)'s most recent meeting minutes were released last Wednesday and provided further support for the market's expectation of back-to-back 50 basis point (bp) rate hikes at the June and July meetings. "Most participants judged that 50 basis point increases in the target range would likely be appropriate at the next couple of meetings," the minutes said. It was also reiterated that the Federal Reserve (Fed) may have to push interest rates beyond neutral and into restrictive territory to confidently quell inflation, stating that "a restrictive stance of policy may well become appropriate depending on the evolving economic outlook and the risks to the outlook." This type of open-ended language has been a staple in the Fed's recent guidance as they look to remain nimble, balance its desire to effectively fight inflation, and engineer a soft (or "softish") landing to avoid a recession. Treasury yields were down slightly last week. The 2-, 5-, 10-, and 30-year U.S. Treasury yields fell 4 bps (to 2.48 percent), 1 bp (to 2.71 percent), 3 bps (to 2.75 percent), and 1 bp (to 2.98 percent), respectively.

- Global equities posted sharp gains last week. Investors focused on inflation, which showed hints of easing as the Fed’s favorite inflation gauge, the Core Personal Consumption Expenditure Price Index, fell from a 0.9 percent increase in March to a 0.2 percent increase in April. Additionally, we saw China issue support for its economy and a reopening within Shanghai, which is a start to alleviating supply chain issues within the region. We also saw softening in policy from the Fed as Atlanta Fed Chairman Raphael Bostic stated he would like to see a pause in September after back-to-back 50 bp federal funds rate hikes. Inventories rose within the retail sector, leading to potential relief to inflationary pressure. As a result, the top-performing sectors were consumer discretionary, energy, technology, and financials. The worst-performing sectors were health care, telecom, and utilities. We’ll monitor if the shift in sentiment sticks in the upcoming weeks.
- On Wednesday, the preliminary estimate for the April durable goods orders report was released. The report showed that orders of durable goods grew 0.4 percent during the month, slightly less than the expected 0.6 percent increase. Core durable goods orders, which strip out the impact of volatile transportation orders, increased 0.3 percent against calls for a 0.6 percent increase. This marks two consecutive months with core durable goods orders growth, which is a good sign for overall business spending because core durable goods orders are often viewed as a proxy for business investment. Business spending has seen solid growth throughout most of the past year, as businesses have invested in equipment and other capital expenditures to increase productivity and meet high levels of consumer

demand. Given the tight labor market, continued business investment is expected throughout the start of summer.

- On Friday, the April personal income and personal spending reports were released. Personal spending increased more than expected, rising 0.9 percent against calls for a 0.8 percent increase. March's spending growth was also revised up, from an initial report of 1.1 percent to 1.4 percent. Although some spending growth in March and April was due to rising prices, even real personal spending figures improved more than expected in April, signaling high levels of consumer resilience despite inflationary pressure. This strong result, which echoes better-than-expected growth for retail sales in April, was driven by increased consumer spending on goods and services. Personal income increased 0.4 percent, slightly below the 0.5 percent increase that was expected. Although personal income growth missed modestly against forecasts, this was still a solid result that marked seven consecutive months with rising incomes, highlighting the strength of the labor market recovery over that period.

Equity Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	6.62%	0.81%	–12.21%	0.32%
Nasdaq Composite	6.85%	–1.53%	–22.21%	–11.17%
DJIA	6.28%	0.96%	–7.85%	–2.03%
MSCI EAFE	3.48%	0.63%	–11.45%	–10.77%
MSCI Emerging Markets	0.91%	–2.82%	–14.63%	–21.53%
Russell 2000	6.49%	1.41%	–15.51%	–15.87%

Source: Bloomberg, as of May 27, 2022

Fixed Income Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.14%	–8.47%	–7.77%
U.S. Treasury	0.75%	–7.81%	–6.98%
U.S. Mortgages	1.62%	–6.83%	–7.12%
Municipal Bond	1.35%	–7.59%	–6.92%

Source: Morningstar Direct, as of May 27, 2022

What to Look Forward To

On Tuesday, the **Conference Board Consumer Confidence** survey for May was released. Consumer confidence declined by less than expected during the month. The index fell from an upwardly revised 108.6 in April to 106.4 in May, against calls for a further drop to 103.6. This result left the index above the recent low of 105.7 recorded in February 2022. Confidence has been challenged since last summer largely due to concerns about inflation and the pandemic. The index hit a post-lockdown high of 128.9 in June 2021. Since then, the declines we've seen highlight the negative impact of concerns about inflation and Covid-19 infections over the past year. Looking forward we'll likely need to see further signs of slower inflation before confidence returns to the highs of last summer. That said, although confidence has been challenged over the past year, consumer spending growth has remained relatively strong. This fact is an encouraging sign that consumers remain willing and able to purchase goods and services, despite rising concerns about the economy.

On Wednesday, the **ISM Manufacturing Index** for May is set to be released. Economists expect the index to fall modestly, from 55.4 in April to 55 in May. This is a diffusion index, where values above 50 indicate growth. Accordingly, this result would signal continued expansion for manufacturers, just at a slightly slower rate. We've seen solid improvements for manufacturing output throughout the course of the year, supported by high demand for manufactured goods. That said, a potential slowdown in growth in the months ahead is possible, given the headwinds created by rising prices for goods and labor. Slower growth is still growth, however, so the expected result would indicate continued expansion for manufacturers despite these headwinds.

On Friday, we'll see the release of the May **employment report**. Economists expect to see 329,000 jobs added during the month, down from the 428,000 jobs added in April but still strong on a historical basis. If estimates prove accurate, the May report would mark 17 consecutive months with strong job growth, highlighting the impressive labor market recovery over the past year and a half. The underlying data is also expected to show positive signs. The unemployment rate is set to drop from 3.6 percent in April to 3.5 percent in May. In February 2020, the unemployment rate bottomed out at 3.5 percent, so a return to this historically low level in little more than 2 years would be another example of the labor market's strong improvement over the course of the pandemic. Finally, wage growth is expected to increase 5.2 percent on a year-over-year basis in May, down from 5.5 percent in April. This would be a positive result for the Fed, given concerns about widespread inflationary pressure.

We'll finish the week with Friday's release of the **ISM Services Index** for May. This measure of service sector confidence is expected to drop from 57.1 in April to 56.3 in May. As with the manufacturing survey, this is a diffusion index, where values above 50 indicate expansion. Service sector confidence has dropped this year, after hitting a record high of 68.4 in November 2021. Rising medical risks earlier in the year and persistent inflation have served as headwinds in 2022. That said, due to high consumer and business demand for services, confidence should remain largely in line with pre-pandemic levels in the months ahead. We've seen spending patterns start to shift from goods to services over the past few months. Pent-up demand and diminishing pandemic fears have boosted service sector spending.

Disclosures: *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.

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Tom Chester is located at 31 Chestnut St., Camden, Maine 04843 and can be reached at 207-236-4311.

Weekly Market Update – 1/21/2014

Treasuries moved very little last week, trading within a tight range and finishing the week on the lower end of that range. The small inflation number pushed yields lower, mostly on the longer end of the curve. The yield on the 10-year Treasury ended last week at 2.81 percent but bounced back on Tuesday to as high as

2.86 percent before settling at 2.83 percent later in the morning.
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Weekly Market Update 12/16/2013

Equity markets slid lower last week, and the S&P 500 posted its first weekly loss since early October. Losses for most major domestic large-cap indices were grouped tightly in the 1.50 percent–1.60 percent range. Unlike in previous periods, there was no late-week rally to offset the declines that took place earlier in the week. Read more now in our Weekly Market Update.

Weekly Market Summary – 12/9/2013

Equity markets were largely unchanged last week, with the S&P 500 posting a nominal gain of 0.01 percent and the Nasdaq faring slightly better, up 0.08 percent. International indices, as well as the small-cap Russell 2000, were notably weak.

Contrary to appearances, equities were quite volatile last week. A 1.10-percent gain for the S&P 500 on Friday—thanks to better-than-expected economic news—wiped out losses that had built up earlier in the week. Read more now in our Weekly Market Summary.

Weekly Market Summary – 12/2/13

Equity markets showed some modest upside in a very quiet week of trading. The S&P 500 gained 0.10 percent to eke out another all-time closing high for the week. Read more now in our Weekly Market Summary.

Weekly Market Summary – 11/25/13

The yield on U.S. 10-year Treasuries stood at 2.76 percent early Monday morning, up from last week's low of 2.66 percent. The move comes off of the Fed's recent discussion on tapering—specifically, how it could be further down the road than many investors and analysts anticipated.

Most broad-market equity indices were in positive territory last week thanks to a rally in prices on Friday. The best large-cap performer, the Dow Jones Industrial Average continues to try and close the gap on year-to-date performance versus other domestic indices.Small-cap stocks posted the best performance on the week while international markets lagged—a common theme throughout the year.

Read more now in a Weekly Market Summary.

Weekly Market Summary – 11/18/2013

Investors moved back into U.S. Treasuries late last week and early Monday morning, pushing yields on the 10-year as low as 2.69 percent. Yields of 2.80 percent and 3 percent are both very strong levels for the 10-year and tend to attract some equity investors into the space. Read more now in the Allen Insurance and Financial Weekly Market Summary.

Weekly Market Summary -11/13/13

U.S. Treasuries sold off last week, pushing yields as high as 2.75 percent early Monday morning. The move came on the heels of better-than-expected economic news. The Federal Reserve remains dependent on data after reinstating its commitment to quantitative easing at its last meeting a couple of weeks ago. Read more in our Weekly Market Summary.

Weekly Market Summary – 10/28/13

Treasuries remained at their recent lows early Monday morning. The 10-year stood at 2.50 percent, the same level it has held for a few days now, following its recent drop from 2.75 percent. The market is anticipating $96 billion in new issuance this week, as well as the next Federal Open Marketing Committee (FOMC) meeting, which is set for Tuesday and Wednesday.

Read more now in our Weekly Market Summary.

Weekly Market Summary – 10/15/13

Earnings season has begun, and investors will likely look for earnings to beat the relatively low bar analysts have set.

Unable to come to a deal to end the shutdown and facing a debt ceiling debate, Congress continues to inject uncertainty into the picture and limit the flow of economic data.

Read more now.