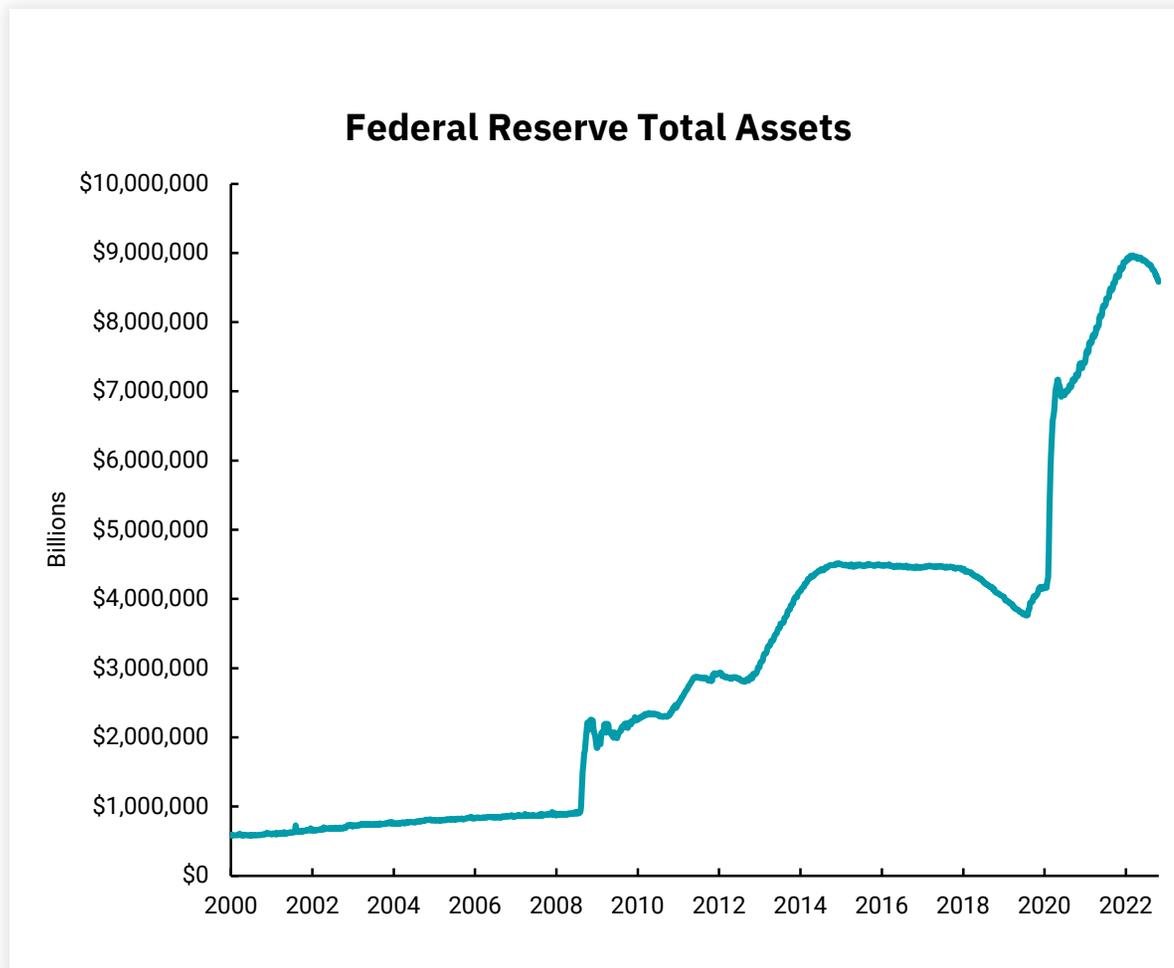


Weekly market update



Chart of the week (Dec. 09, 2022)



The Federal Reserve rate-setting arm, the Federal Open Market Committee (FOMC), is scheduled to meet Dec. 13 and 14. So far, they have voted to raise rates at every meeting this year, starting at 0.25% but quickly accelerating to 0.50% and then 0.75% at each of the last four meetings. This month we expect them to slow the tightening back to 0.50%, bringing the fed funds to a target range of 4.25-4.50%—all in all, an extraordinary year of rate increases. We also expect another 0.50-1.00% in hikes during the first quarter of 2023.

The use of interest rates to influence economic activity is a commonly used tool for central banks, including the U.S. Federal Reserve. But beginning with the financial crisis in the early 2000s, the U.S. Fed started to utilize its balance sheet as another tool. Increasing the balance sheet's size by buying securities, primarily treasury securities and government-guaranteed, mortgage-backed securities, could help reduce interest rates and spur economic demand. This week's chart shows this process beginning in 2009 with a sharp increase and then gradually growing until 2018, when the first attempt to reduce the size of the balance sheet occurred. The Fed had already reversed course on this balance sheet decline when the global pandemic hit, and the Fed then significantly increased the size of the balance sheet.

After topping out near \$9 trillion, the Fed has now begun another process of reducing the size of the balance sheet. It has been hard to quantify how much growing the balance sheet helped, which means it is hard to know how much shrinking the balance sheet will hurt. But if we take it as a given that raising the size of the balance sheet helped the economy grow, then shrinking the balance sheet will be a headwind to growth going forward.

Weekly market update



Commentary (Dec. 09, 2022)

Domestic Equities

- U.S. stocks gave up last week's gains and closed negative for the week in the face of persistent inflation.
- The producer price index (PPI), which measures what suppliers charge businesses for materials, climbed higher than expected over last month. Investors had been hopeful that this inflation reading would show some evidence that prices are cooling ahead of the Fed meeting next week.
- Oil prices have been falling on concerns that a recession would slow demand. However, some analysts are forecasting prices rising back over \$100 a barrel due to pent-up demand as China reopens.
- With little in the way of earnings reports coming out in the final month of the year, economic data and how it may influence the Fed is driving market direction.

Bonds

- U.S. Treasury yields continued to fall, with investors anticipating slower Fed rate hikes and softening inflation. On Wednesday, the yield on the 10-year U.S Treasury fell to a 3-month low but rebounded Friday following a stronger-than-expected PPI print for Nov.
- In international markets, the Bank of Canada raised its policy rate by 0.50% to 4.25%, marking the seventh consecutive meeting in which the central bank has hiked rates. However, the Governing Council hinted at a potential pause in hikes going forward. The Royal Bank of Australia and Bank of India also raised policy rates this week.
- S&P Global downgraded Ghana's long-term local currency bonds to "selective default" after the Ghanaian government announced plans to restructure its debt. The country has struggled to satisfy its commitments in the face of crippling high inflation and a collapsing currency this year.

International Equities

- Global sentiment was subdued this week as investors remain nervous about the state of the global economy and inflation while assessing future policy shifts from global central banks.
- Foreign developed market stocks experienced a sluggish trading week, with most European and Pacific markets struggling to gain traction. Canadian markets fell as the Bank of Canada raised interest rates to the highest level in almost 15 years. With the drop in oil prices, energy stocks were the worst-performing sector.
- Emerging markets encountered some volatility this week, with markets across Eastern Europe and Latin America falling while Chinese stocks found some momentum. Investor sentiment towards Chinese stocks may be shifting as the country started relaxing some of its zero-COVID policies in an effort to generate higher economic growth.

Economics

- The Bureau of Labor Statistics (BLS) reported the PPI for final demand increased 0.30% in Nov. Most of the monthly increase was due to services increasing 0.40%, whereas goods increased 0.10%. Over the prior 12 months, the PPI increased 7.40% and has declined each month since June.
- The Census Bureau reported exports declined 0.70% to \$257 billion, and imports increased 0.60% to \$334 billion, causing the trade deficit to widen 5.40%, reaching \$78 billion in Oct.
- The BLS reported that labor productivity increased 0.80% in the third quarter, replacing the initial estimate of 0.30%.
- Initial claims for unemployment insurance were 230k for the week ending Dec. 3.
- The Consumer Price Index for Nov. will be released on Tuesday.

Weekly Market Update

For Week Ending December 09, 2022

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	33,476.46	-2.7%	-6.0%	-4.4%
S&P 500 Index	3,934.38	-3.3%	-16.2%	-14.4%
NASDAQ	11,004.62	-4.0%	-29.1%	-28.5%
S&P 400 Midcap Index	2,469.58	-4.0%	-11.8%	-9.7%
S&P 600 Smallcap Index	1,186.62	-4.7%	-14.2%	-12.6%
MSCI EAFE	6,698.32	-0.2%	-12.4%	-10.9%
MSCI Emerging Markets	496.18	0.5%	-18.2%	-19.0%
Bloomberg US Agg	2,076.40	-0.4%	-11.8%	-11.7%
Bloomberg Municipal 5 Yr	469.65	0.3%	-5.1%	-5.0%
Bloomberg US Corporate	3,023.18	-0.3%	-14.2%	-14.0%
Bloomberg Gbl Agg ex US Hdq	533.73	0.0%	-7.6%	-8.3%
Bloomberg High Yield	2,215.70	-0.2%	-10.0%	-9.3%
MSCI US REIT Index	1,975.80	-1.8%	-23.0%	-18.9%
Bloomberg Commodity Index	242.94	-2.3%	14.7%	17.8%

Key Rates

	Last Price/Yield	Prior Week	Year End	Year Ago
Fed Funds Target	4.00%	4.00%	0.25%	0.25%
3-Month Treasury	4.26%	4.25%	0.06%	0.05%
1-Year Treasury	4.68%	4.63%	0.39%	0.26%
2-Year Treasury	4.34%	4.27%	0.73%	0.69%
5-Year Treasury	3.77%	3.65%	1.26%	1.27%
7-Year Treasury	3.70%	3.58%	1.44%	1.43%
10-Year Treasury	3.58%	3.49%	1.52%	1.50%
30-Year Treasury	3.56%	3.55%	1.90%	1.88%

Consumer Rates

30-Year Mortgage	6.63%	6.54%	3.27%	3.25%
Prime Rate	7.00%	7.00%	3.25%	3.25%
3-Month LIBOR	4.73%	4.73%	0.21%	0.20%

Commodities

Gold	1,797.32	1,797.63	1,829.20	1,775.33
Crude Oil (WTI)	71.02	79.98	72.78	67.50
Gasoline	3.50	3.65	3.38	3.51
Natural Gas	6.25	6.28	3.64	4.18
Copper	3.88	3.85	4.43	4.27

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.31	19.27	4.49	2.08
S&P 500	17.89	19.01	3.97	1.68
S&P 500 Value	15.80	16.75	2.90	2.26
S&P 500 Growth	21.08	22.48	6.84	1.01
NASDAQ	15.43	16.19	3.79	2.05
S&P Midcap 400	13.00	14.20	2.28	1.69
S&P Smallcap 600	13.54	14.67	1.78	1.43
MSCI EAFE	12.57	13.79	1.71	3.38
MSCI Emerging Markets	11.75	11.04	1.55	3.33

Equity Style



	1 Month*				Year to Date*		
	Value	Core	Growth		Value	Core	Growth
Large	3.85	5.16	6.71	> 10%	-4.46	-16.18	-26.64
Mid	3.36	3.93	4.55	0% - 10%	-6.19	-11.81	-17.32
Small	2.00	2.69	3.51	< 0%	-9.18	-14.18	-19.13

*S&P Indices

Fixed Income Style



	1 Month*				Year to Date*		
	Short	Interm.	Long		Short	Interm.	Long
Govt	0.85	2.00	11.65	> 10%	-3.88	-7.31	-25.65
Corp	1.35	5.98	12.93	0% - 10%	-3.44	-14.46	-22.33
HY	1.92	4.05	6.88	< 0%	-3.60	-9.33	-20.93

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	7.7%	6.2%
CPI Core Inflation	6.3%	4.6%
Personal Consumption Exp (PCE) Core	5.0%	4.3%

Jobs

Unemployment Rate (U3)	3.7%	4.2%
Broader Unemployment Rate (U6)	6.7%	7.7%
JOLT Survey (in millions)	10.33	11.09
Jobless Claims (000's)	230	228
Change in Non-Farm Payroll (000's)	263	647
Average Hourly Earnings (Y/Y % Change)	5.1%	5.3%

Consumer & Spending

Consumer Confidence (Conf Board)	100.2	111.9
Consumer Spending (\$ Bil)	17,776	16,474
Consumer Credit (\$ Bil)	4,729	4,376
Retail Sales (\$ Bil)	695	641

Housing

Housing Starts (000's)	1,425	1,563
Case-Shiller Home Price Index	300.41	271.50

U.S. Productivity

Real Gross Domestic Product (\$ Bil)	20,039	19,673
Quarter over Quarter Change	2.9%	2.7%
Year Over Year Change	1.9%	5.0%
ISM Manufacturing	49.00	60.60
Capacity Utilization	79.88	78.58
Markit US Composite PMI	46.40	57.20

U.S. General

Leading Economic Indicators	114.9	118.1
Trade Weighted Dollar Index	122.1	114.2
EUR / USD	1.05	1.13
JPY / USD	136.67	113.49
CAD / USD	0.73	0.79
AUD / USD	0.68	0.71

S&P 500 Sector Returns

	1 Month	YTD
Energy	-6.72%	54.45%
Utilities	7.84%	1.22%
Consumer Staples	5.71%	0.48%
Health Care	5.02%	-0.83%
Industrials	3.72%	-5.10%
Materials	6.48%	-9.14%
Financials	2.02%	-10.23%
Real Estate	6.41%	-24.38%
Information Technology	8.14%	-24.60%
Consumer Discretionary	5.59%	-32.40%
Communication Services	7.48%	-38.07%

Source: Bloomberg

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