

# Market Insights - August 19, 2022

## EQUITY MARKETS SNAP WINNING STREAK AT 4 AS RETAIL SALES COME IN STRONG AND THE FED CONTEMPLATES ANOTHER 75 BASIS-POINT HIKE

- The winning streak for equities ended at four weeks, as markets retreated amidst heightened volatility
- The small-cap Russell 2000 dropped the most, losing 2.9%, followed by NASDAQ (-2.6%), the large-cap S&P 500 (1.2%) and the mega-cap DJIA (-0.2%)
- Although the markets lost ground this week, on Tuesday it looked as if markets were headed for their fifth weekly gain, as the S&P 500 was up over 1%, but then it appeared as if investors got nervous and took some profits, which is not surprising given that the S&P 500 is up more than 18% since its mid-June low
- Of the 11 S&P 500 sectors, 8 ended the week in the red, with Communication Services sector (-3.3%) losing the most and the Health Care sector (-0.6%) losing the least
- Of the 3 positive sectors, Consumer Staples (+1.9%) was the clear winner, with Utilities and Energy both gaining 1.0%
- The NAHB Housing Market Index for August fell to 49, which is its eighth straight monthly decline, pushing many to suggest that housing is entering a recession
- The Empire State Manufacturing Survey for August dropped to -31.3, which is one of the lowest readings on record
- July Housing Starts were weaker than expected and existing home sales declined 5.9% month-over-month in July, marking the sixth straight month of declines
- Across the pond, it was reported that UK inflation hit a 40-year high of 10.1% year-over-year in July

### Weekly Market Update – August 19, 2022

	Close	Week	YTD
DJIA	33,707	-0.2%	-7.2%
S&P 500	4,228	-1.2%	-11.3%
NASDAQ	12,705	-2.6%	-18.8%
Russell 2000	1,957	-2.9%	-12.8%
MSCI EAFE	1,919	-1.9%	-17.8%
Bond Index*	2,126.72	-0.9%	-10.5%
10-Year Treasury	2.97%	+0.12%	+1.4%

\*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

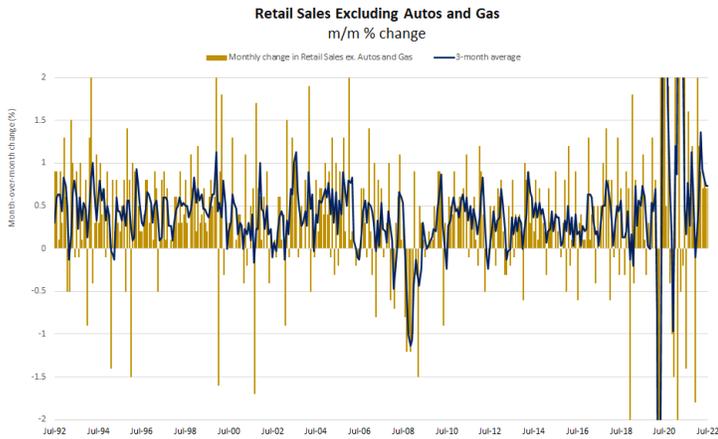
### Stocks Can't Make it 5-Weeks in a Row

This week saw an end to 4 consecutive weeks of gains for equities and many felt as if investors were taking money off the table, given the recent run-up in stocks since mid-June. But underlying that sentiment was also worry that inflation may not have peaked, as the UK reported inflation north of 10%, with predictions for inflation reaching more than 13% over there this fall. Further, comments from a self-described hawkish Fed board member saying he supported another 75 basis-point rate hike this September caused Wall Street to hit the pause button.

Not surprisingly, the Growth names, especially the Technology and Communication Services sectors, underperformed whereas the Value names, including Energy, outperformed the broad market.

There was a decent amount of economic data to report and

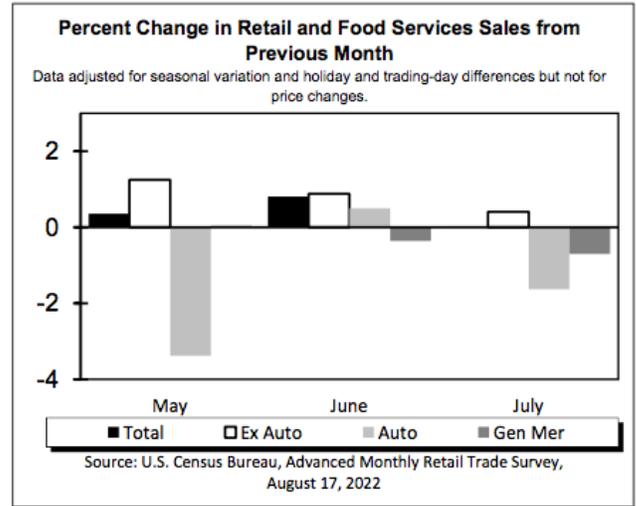
the Retail Sales Report received a lot of attention on Wednesday. The headline number said that Retail Sales was virtually unchanged over the past month. But digging into the Retail Sales data, Wall Street noticed that excluding auto and gasoline sales, Retail Sales rose by a significant 0.7% month-over-month. Further, online sales were up sharply, while restaurant sales were also up.



## Retail Sales Unchanged

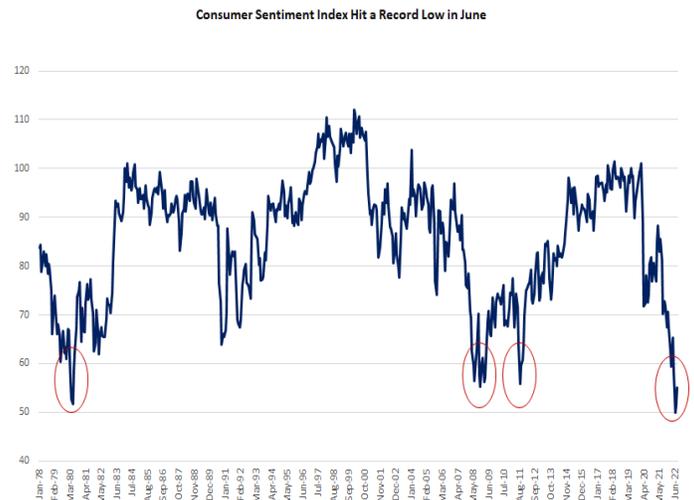
On August 17<sup>th</sup>, the U.S. Census Bureau announced the following advance estimates of U.S. retail and food services sales for July 2022:

- U.S. retail and food services sales for July 2022 were \$682.8 billion, virtually unchanged from the previous month, but 10.3% above July 2021.
- Total sales for the May 2022 through July 2022 period were up 9.2% from the same period a year ago.
- The May 2022 to June 2022 percent change was revised from up 1.0% to up 0.8%.
- Retail trade sales were virtually unchanged from June 2022, but up 10.1% above last year.
- Gasoline stations were up 39.9% from July 2021, while nonstore retailers were up 20.2% from last year.



## Consumer Sentiment Ticks Up

The University of Michigan reported that its Consumer Sentiment Index “moved up very slightly this month to about 5 index points above the all-time low reached in June. All components of the expectations index improved this month, particularly among low and middle income consumers for whom inflation is particularly salient. The year-ahead economic outlook rose substantially to just above its average reading from the second quarter 2022, while the two other expectations index components remain at or below their second quarter averages.”

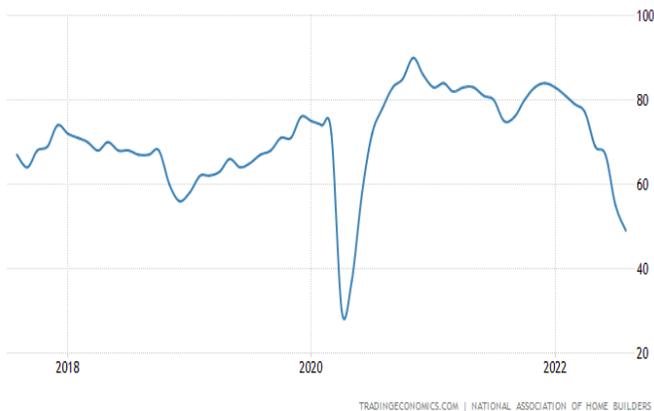


## Home Builder Confidence Falls for 8<sup>th</sup> Straight Month

On August 15<sup>th</sup>, the National Association of Home Builders announced that “Builder Confidence fell for the eighth straight month in August as elevated interest rates, ongoing supply chain problems and high home prices continue to exacerbate housing affordability challenges. In another sign that a declining housing market has failed to bottom out, builder confidence in the market for newly built single-family homes fell six points in August to 49, marking the first time since May 2020 that the index fell below the key break-even measure of 50.

Ongoing growth in construction costs and high mortgage rates continue to weaken market sentiment for single-family home builders. And in a troubling sign that consumers are now sitting on the sidelines due to higher housing costs, the August buyer traffic number in our builder survey was 32, the lowest level since April 2014 with the exception of the spring of 2020 when the pandemic first hit.”

NAHB Index For the Past 5-Years



“Tighter monetary policy from the Federal Reserve and persistently elevated construction costs have brought on a housing recession. The total volume of single-family starts will post a decline in 2022, the first such decrease since 2011. However, as signs grow that the rate of inflation is near peaking, long-term interest rates have stabilized, which will provide some stability for the demand-side of the market in the coming months.”

### In addition:

- Roughly one-in-five (19%) home builders in the HMI survey reported reducing prices in the past month to increase sales or limit cancellations.
- The median price reduction was 5% for those reporting using such incentives.
- Meanwhile, 69% of builders reported higher interest rates as the reason behind falling housing demand, the top impact cited in the survey.

### Further:

- All three HMI components posted declines in August and each fell to their lowest level since May 2020.
- Current sales conditions dropped seven points to 57, sales expectations in the next six months declined two points to 47.
- Traffic of prospective buyers fell five points to 32.

Looking at the three-month moving averages for regional HMI scores:

- The Northeast fell nine points to 56;
- The Midwest dropped three points to 49;
- The South fell seven points to 63; and
- The West posted an 11-point decline to 51.

Sources; [census.gov](https://www.census.gov); [nahb.org](https://www.nahb.org); [umich.org](https://www.umich.org); [msci.com](https://www.msci.com); [fidelity.com](https://www.fidelity.com); [nasdaq.com](https://www.nasdaq.com); [wsi.com](https://www.wsi.com); [morningstar.com](https://www.morningstar.com)