

# MARKET VIEW WEEKLY

Philip Blancato, Chief Market Strategist, Advisor Group



## ECONOMIC REVIEW<sup>1</sup>

- The jobs report was released on Friday and showed that the economy added jobs for the 21<sup>st</sup> consecutive month, with payrolls increasing 263,000 for the month of September.
  - The unemployment rate dropped from 3.7% in August to 3.5% in September.
  - The participation rate fell slightly to 62.3% from 62.4% in August.
  - Wages rose 5% from September of last year, unchanged from the August reading
- According to the latest JOLTS report, job openings fell to 10.1 million in August, meaning that there are still more than 1.7 unfilled positions for every unemployed person in the U.S
- ISM Manufacturing and ISM Services readings showed readings of 50.9 and 56.7.
  - While both were slightly down from the previous month, they remain in expansionary territory
- **How do the Jobs report, JOLTS and ISM readings impact you?**
  - While the jobs report was good for the economy and for all of those that got a job, this is not what the Federal Reserve (Fed) wants to see. The decline in the unemployment rate back to 3.5%, an almost 50-year low, will keep pressure on wages and salaries and threatens to keep inflation higher for longer.
  - However, when looking at the JOLTS report, the Fed should welcome this apparent decline in excess demand for labor in the hope that it eases wage pressures.
  - Looking under the hood of the ISM reports, the prices paid indexes in both the services and manufacturing sectors again declined. This represents an easing in supply chain pressures which could translate to lower inflation readings in the months to come.



## A LOOK FORWARD<sup>1</sup>

- We will receive Producer Price Index (PPI) and Consumer Price Index (CPI) readings on Wednesday and Thursday of next week.
  - PPI is expected to fall from 8.7% to 8.4%
  - CPI is expected to fall from 8.3% to 8.1%
- Retail sales will also be released next week and are expected to show a month-over-month gain of 0.2%
- **How do Inflation readings and retail sales impact you?**
  - The markets are seemingly dependent on inflation readings. Any surprise lower in the PPI and CPI readings would be seen as a positive for markets. However, if inflation remains stubbornly high, the market will expect the Fed to continue its aggressive rate hiking path, which means that a year end recovery will be harder to come by.
  - In terms of retail sales, investors will be looking for continued strength. The consumer accounts for 70% of economic activity. So long as consumers continue to spend, fears over a recession should be tempered.



## MARKET UPDATE

| Market Index Returns as of 10/07/22      | WTD    | QTD    | YTD     | 1 YR    | 3 YR   | 5 YR   |
|--|--------|--------|---------|---------|--------|--------|
| S&P 500 TR USD                           | 1.56%  | 1.56%  | -22.68% | -15.99% | 9.17%  | 9.30%  |
| NASDAQ Composite TR USD                  | 0.75%  | 0.75%  | -31.49% | -26.76% | 11.09% | 11.09% |
| DJ Industrial Average TR USD             | 2.03%  | 2.03%  | -18.08% | -13.99% | 5.62%  | 7.49%  |
| Russell Mid Cap TR USD                   | 2.51%  | 2.51%  | -22.37% | -19.24% | 6.63%  | 6.76%  |
| Russell 2000 TR USD                      | 2.27%  | 2.27%  | -23.40% | -23.36% | 5.66%  | 3.75%  |
| MSCI EAFE NR USD                         | 1.94%  | 1.94%  | -25.68% | -23.20% | -0.78% | -0.44% |
| MSCI EM NR USD                           | 2.52%  | 2.52%  | -25.32% | -26.32% | -1.04% | -1.71% |
| Bloomberg US Agg Bond TR USD             | -0.25% | -0.25% | -14.83% | -14.58% | -3.52% | -0.29% |
| Bloomberg US Corporate High Yield TR USD | 1.42%  | 1.42%  | -13.53% | -12.73% | 0.15%  | 1.83%  |
| Bloomberg Global Aggregate TR USD        | -0.39% | -0.39% | -20.21% | -20.63% | -6.07% | -2.30% |



## OBSERVATIONS

- U.S. equities were positive across the board. Blue Chip securities were the best performers, with the Dow up 2.03%.
- Domestically, smaller-sized companies outperformed their larger cap counterparts, as the Russell 2000 index and Russell Mid cap increased 2.27% and 2.51%, respectively.
- Developed international markets were also positive for the week; the MSCI EAFE index rose 1.94%.
- Emerging markets were also positive, up 2.52%.
- U.S. bonds were negative for the week, with Bloomberg Barclays U.S. Aggregate Bond index down -0.25%.



## BY THE NUMBERS

- **Strong Dollar** – The U.S. dollar has been moving higher all year as well, with the DXY dollar index up nearly 17% this year and up 25% since early 2021. This move has been driven by several factors, including the relative rate moves by the Fed versus global central banks and the relative resilience of the U.S. economy. The dollar also tends to be a safe-haven currency for investors, especially when global growth is weakening.<sup>2</sup>
- **Impact of Rate Hikes** – This year's interest rate hikes in the United States are set to cut an estimated \$360 billion of future income for developing countries, excluding China, and signal even more trouble ahead. A one percentage point rise in the Fed's key interest rate lowers economic output by 0.5% in wealthy nations. The same rate hike hurts poorer countries more by lowering economic output by 0.8%, the report estimated.<sup>3</sup>
- **Housing Costs Rise** – For a \$2,500/month payment and 20% down, one can afford a \$476K house today. In early 2021, the figure was \$759K<sup>4</sup>
- **Easing in Shipping Rates** – Unbelievable decline in shipping rates ... cost to send 40-ft container from Shanghai to Los Angeles has fallen by 74% from peak and is back to August 2020 levels<sup>5</sup>

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## Economic Definitions

**Producer Prices - PPI (headline and core):** Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

**CPI (headline and core):** Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

**ISM Manufacturing Index - PMI Surveys** track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

**ISM Services Index - PMI Surveys** track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

**Retail Sales:** Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

**Job Openings:** JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

## Index Definitions

**S&P 500:** The S&P 500<sup>®</sup> is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

**NASDAQ:** The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

**Russell Mid-Cap:** Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

**Russell 2000:** The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

**MSCI EAFE:** The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

**MSCI EM:** The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

**Bloomberg Barclays US Agg Bond:** The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

**Bloomberg Barclays High Yield Corp:** The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

**Bloomberg Barclays Global Agg:** The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**Bloomberg Barclays Municipal Bond Index:** The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

## Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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<sup>1</sup> Data Obtained from Bloomberg as 10/07/2022

<sup>2</sup> <https://www.edwardjones.com/us-en/market-news-insights/stock-market-news/previous-weeks-weekly-market-update>

<sup>3</sup> [https://www.upi.com/Top\\_News/World-News/2022/10/03/uk-united-nations-warns-interest-rate-hikes-global-recession/1021664841703/](https://www.upi.com/Top_News/World-News/2022/10/03/uk-united-nations-warns-interest-rate-hikes-global-recession/1021664841703/)

<sup>4</sup> <https://flipboard.com/@cincylee/money-cshoda85z/for-a-2-500-month-payment-and-20-down-one-can-afford-a-476k-house-today-in-/a-WrXCqwmXSXmUiG-oF3fNyA%3Aa%3A1323608-%2F0>

<sup>5</sup> <https://awealthofcommonsense.com/2022/10/animal-spirits-long-term-bullish/>