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Key Dates/Data Releases

8/1: Markit Manufacturing PMI

8/2 JOLTS

8/3: Markit Services PMI

8/4: International trade in goods and services

8/5: Employment situation

8/10: Consumer Price Index, Treasury budget statement

8/11: Producer Price Index

8/12: Import and export prices

8/16: Housing starts, industrial production

8/17: Retail sales

8/18: Existing home sales

8/23: New home sales

8/24: Durable goods orders

8/25: GDP

8/26: International trade in goods, personal income and outlays

8/30: JOLTS

The Markets (as of market close July 29, 2022)

July saw the stock market ebb and flow throughout the month. Sometimes the market reacted in response to news of some sort. Other times, stocks moved in anticipation of something that may happen. For instance, the latest quarterly corporate earnings reports generally have been better than expected, with about 75% of the S&P 500 companies beating analysts' estimates. However, investors responded negatively following reports that a major retailer was slashing its profit outlook. On the other hand, traders moved to equities following a strong labor report early in the month. The latest Consumer Price Index rose higher than expected, indicating inflation was not close to retreating. Following that report, investors retreated from equities, anticipating that the Federal Reserve would accelerate its tightening policy and raise interest rates more than 75 basis points. In fact, at the end of the month, the Fed bumped up interest rates 75 basis points, as expected. Interestingly, the market jumped higher after the latest interest-rate hike. Investors replaced anticipation of an acceleration in rate increases with expectations that the Fed may not need to be as aggressive as some had feared. Nevertheless, rising inflation, which has led to multiple interest rate hikes, supply bottlenecks, decelerating gross domestic product, the emergence of new COVID strains, and the ongoing Russia/Ukraine war promoted fears of an economic recession. Yet, there is enough favorable economic data to offer some hope.

Inflation continued to dominate the economic news throughout the month. Not only did the CPI advance more than expected, but the personal consumption expenditures index (a preferred inflation indicator of the Federal Reserve) hit a 40-year high. The real estate sector continued to slow in July after setting a torrid pace in 2021 and early in 2022. However, the labor market showed strength, adding nearly 400,000 new jobs, while wages have increased more than 5.0% over the past 12 months. After raising the federal funds rate late in the month, Federal Reserve Chair Jerome Powell hinted that the pace of interest-rate hikes may eventually slow to assess the cumulative impact on the economy. Gross domestic product decelerated for the second straight quarter, for the three-month period ended in June. Industrial production also slowed in June, with manufacturing output falling for the second consecutive month.

Crude oil prices declined for the second consecutive month in July, something that hasn't happened since 2020. Rising inflation has cut into consumer spending, weakening demand. Crude oil prices advanced over 10.0% to nearly \$115.00 per barrel. Gas prices also continued to fall in July after reaching record highs in May and June. The national average retail price for regular gasoline was \$4.330 per gallon on July 25, down from \$4.872 on June 27 but \$1.194 over a year ago.

Overall, stocks enjoyed the strongest month since 2020. The S&P 500 had its best month since November 2020, while the Nasdaq's monthly performance was the best since April 2020. Investors saw strong corporate earnings reports as a positive sign for stocks, an indication that the economy may have some strength in it. Consumer discretionary, technology, and industrials led the market sectors. Ten-year Treasury yields ended the month down 33.0 basis points. Gold prices decreased nearly \$30.00. The U.S. dollar rode the ebbs and flows of the stock market and bond prices, ultimately ending the month higher than it started.

Market/Index	2021 Close	Prior Month	As of July 29	Monthly Change	YTD Change
DJIA	36,338.30	30,775.43	32,845.13	6.73%	-9.61%
Nasdaq	15,644.97	11,028.74	12,390.69	12.35%	-20.80%
S&P 500	4,766.18	3,785.38	4,130.29	9.11%	-13.34%
Russell 2000	2,245.31	1,707.99	1,885.73	10.41%	-16.01%
Global Dow	4,137.63	3,507.37	3,639.48	3.77%	-12.04%
Fed. Funds target rate	0.00%-0.25%	1.50%-1.75%	2.25%-2.50%	75 bps	225 bps
10-year Treasuries	1.51%	2.97%	2.64%	-33 bps	113 bps
US Dollar-DXY	95.64	104.70	105.83	1.08%	10.65%
Crude Oil-CL=F	\$75.44	\$105.82	\$98.23	-7.17%	30.21%
Gold-GC=F	\$1,830.30	\$1,808.00	\$1,778.80	-1.62%	-2.81%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark the performance of specific investments.

Last Month's Economic News

Employment: Employment rose by 372,000 in June, in line with the prior three-month average (383,000). Notable job gains occurred in professional and business services, leisure and hospitality, and health care. With the June increase, employment is down by only 524,000, or 0.3%, from its pre-pandemic level in February 2020. The unemployment rate remained at 3.6% for the fourth month in a row. The number of unemployed persons dipped marginally to 5.9 million. By comparison, in February 2020 prior to the coronavirus pandemic, the unemployment rate was 3.5%, and the number of unemployed persons increased by about 200,000 to 5.9 million. Among the unemployed, the number of workers who permanently lost their jobs was 1.3 million in June (1.4 million in May). The number of persons who were unable to work because their employer closed or lost business due to the pandemic rose to 2.1 million, up from 1.8 million in May. The labor force participation rate was little changed at 62.2% in June. The employment-population ratio fell by 0.3 percentage point to 59.9%. Both measures remain below their February 2020 values (63.4% and 61.2%, respectively). In June, average hourly earnings rose by \$0.10 to \$32.08. Over the last 12 months ended in June, average hourly earnings increased by 5.1%. The average work week was 34.5 hours in June, down 0.1 percentage point from the previous month.

There were 256,000 initial claims for unemployment insurance for the week ended July 23 (231,000 on June 25), while the total number of insured unemployment claims was 1,359,000 as of July 16 (1,372,000 on June 25). A year ago, there were 411,000 initial claims for unemployment insurance and 3,082,000 total insured unemployment claims.

FOMC/interest rates: Following its meeting in July, the Federal Open Market Committee increased the federal funds target rate range by 75.0 basis points to 2.25%-2.50%. In support of its decision, the Committee noted that it is "highly attentive to inflation risks" and that it is "strongly committed to returning inflation to its 2.0% objective."

GDP/budget: Gross domestic product decreased 0.9% in the second quarter of 2022 after falling 1.6% in the first quarter. The economy has decelerated for two months in a row. A portion of the second-quarter downturn is attributable to sectors impacted by higher interest rates that are cutting into demand (e.g., housing, nonresidential fixed investment), while inflation and ongoing supply chain disruptions are impacting production. Consumer spending rose 1.0% in the second quarter after increasing 1.8% in the first quarter. Most of the increase in consumer spending is attributable to a 4.1% jump in services, while spending on durables slid 2.6%. Also dragging down GDP was a 3.9% decline in fixed investment, within which residential fixed investment dropped 14.0%, evidence of the slowdown in the housing sector. Nonresidential (business) fixed investment dipped 0.1% after rising 10.0% in the previous quarter. Exports rose 18.0% in the second quarter, while imports, which are a negative in the calculation of GDP, advanced 3.1% after jumping 18.9% in the first quarter. In the second quarter, the personal consumption expenditures price index, a measure of inflation, increased 7.1%, the same increase as in the first quarter.

The Treasury budget deficit came in at \$88.8 billion in June, up from \$66.2 in May but down from the deficit of \$174.2 billion in June 2021. Through the first nine months of fiscal year 2022, the deficit sits at \$515.1 billion, \$1,722.9 billion lower than the deficit over the same period in fiscal year 2021, as outlays dropped \$943.6 billion while receipts increased \$779.3 billion. So far in this fiscal year, individual income tax receipts have risen 34.3% and corporate income tax receipts have increased 15.4%.

Inflation/consumer spending: Overall, inflationary pressures continued to advance in June. According to the latest Personal Income and Outlays report, the personal consumption expenditures price index, a measure of inflation favored by the Federal Reserve, climbed 1.0% in June after advancing 0.6% in May. Consumer prices have risen 6.8% since June 2021. Personal income increased 0.6% in June, the same increase as in the previous month. Disposable personal income rose 0.7% in June (0.6% in May). Consumer spending jumped 1.1% in

June following a 0.3% increase in May.

The Consumer Price Index climbed 1.3% in June after climbing 1.0% in the previous month. The June increase was broad-based, with advances in prices for shelter, gasoline, and food being the largest contributors. The energy index rose 7.5% in June, with prices for gasoline climbing 11.2%. Prices for food rose 1.3% in June (1.0% in May), and the index for shelter increased 0.6% for the second consecutive month. New vehicle prices rose 0.6% in June, while used-vehicle prices jumped 1.6% higher. Apparel increased 0.8% in June and transportation services increased 2.1%. For the 12 months ended in June, the CPI increased 9.1% (8.6% for the 12-month period ended in May), the largest 12-month increase since the period ending November 1981.

Prices that producers receive for goods and services jumped 1.1% in June following a 0.8% increase in May. Producer prices have increased 11.3% since June 2021. Prices less foods, energy, and trade services increased 0.4% in June and 8.2% since June 2021, the largest 12-month increase since March 2022. In June, nearly three-fourths of the rise in the PPI was due to a 2.4% advance in prices for final demand goods. Prices for final demand services increased 0.4%. A major factor in the June increase in the prices for goods was a 10.0% increase in energy prices, within which gasoline prices spiked 18.5%.

Housing: Sales of existing homes retreated for the fifth consecutive month in June, falling 5.4% from the May estimate. Year over year, existing home sales were 14.2% under the June 2021 total. According to the latest survey from the National Association of Realtors®, mortgage rates and home prices have risen sharply over a short span of time, taking a toll on potential home buyers. The median existing-home price was \$416,000 in June, up from \$408,400 in May and 13.4% higher than June 2021 (\$366,900). Unsold inventory of existing homes represents a 3.0-month supply at the current sales pace, up from a 2.6-month supply in May. Sales of existing single-family homes also fell, down 4.8% in June. Sales of existing single-family homes have fallen 12.8% since June 2021. The median existing single-family home price was \$423,300 in June, up from \$415,400 in May and 13.3% over the June 2021 price.

Sales of new single-family homes also declined in June, falling 8.1% from May's total and 17.4% from June 2021. The median sales price of new single-family houses sold in June was \$402,400 (\$444,500 in May). The June average sales price was \$456,800 (\$514,000 in May). The inventory of new single-family homes for sale in June represented a supply of 9.3 months at the current sales pace, up from May's 8.4-month supply. Sales of new single-family homes in June were 17.4% below the June 2021 estimate.

Manufacturing: Industrial production decreased 0.2% in June. Industrial production was flat in May. In June, manufacturing output declined for a second consecutive month, falling 0.5%. Manufacturing of durable goods is down 0.3% in June including a 1.5% decline in motor vehicles and parts. Manufacturing of nondurable goods is off 0.8%, with broad-based declines across most categories except apparel and leather which increased 2.5%. In June, the index for mining rose 1.7%, while the index for utilities fell 1.4%. Despite the June decline, total industrial production was 4.2% higher than it was a year earlier. Since June 2021, manufacturing has risen 3.6%, mining has jumped 8.2%, while utilities have increased 1.4%.

June saw new orders for durable goods increase \$5.0 billion, or 1.9%, marking the eighth monthly increase out of the last nine months. Excluding transportation, new orders rose 0.3% in June. Excluding defense, new orders increased 0.4%. Transportation equipment, up for three consecutive months, led the increase, up \$4.5 billion, or 5.1%.

Imports and exports: Import prices rose 0.2% in June after advancing 0.5% in May, according to the U.S. Bureau of Labor Statistics. Higher fuel prices offset lower nonfuel prices to account for the overall June increase. Fuel import prices rose 5.7% in June, with higher petroleum and natural gas prices both contributing to the increase. The price index for import fuel rose 73.9% over the past year, the largest 12-month advance since increasing 87.0% in November 2021. Prices for nonfuel imports declined for the second consecutive month, dipping 0.5% in June, the largest one-month decrease since April 2020. Prices for U.S. exports advanced 0.7% in June following a 2.9% rise the previous month. Higher prices for nonagricultural exports more than offset lower agricultural export prices. Export prices have risen 18.2% since June 2021.

The international trade in goods deficit was \$98.2 billion in June, down \$5.9 billion, or 5.6%, from May. Exports of goods were \$181.5 billion in June, \$4.4 billion more than in May. Imports of goods were \$279.7 billion, \$1.5 billion less than May imports.

The latest information on international trade in goods and services, released July 7, is for May and shows that the goods and services trade deficit declined by \$1.1 billion to \$86.7 billion from the April deficit. May exports were \$255.9 billion, \$3.0 billion more than April exports. May imports were \$341.4 billion, \$1.9 billion higher than April imports. Year over year, the goods and services deficit increased \$125.6 billion, or 38.4%, from the same period in 2021. Exports increased \$197.1 billion, or 19.4%. Imports increased \$323.6 billion, or 24.0%.

International markets: China's gross domestic product contracted 2.6% in the second quarter after advancing 1.4% in the first quarter. The second-quarter decrease largely reflects the impact of public health restrictions implemented by the government in response to growing COVID cases. As health restrictions eased, economic indicators have shown some improvement recently. Nevertheless, the Chinese government does not appear to be overly concerned about the economic slowdown. On the other hand, economic growth in the eurozone accelerated, despite the ongoing Russia/Ukraine war. The combined GDP of eurozone members was 0.7% higher in the second quarter compared to the first quarter, largely attributable to lifting of pandemic restrictions put in place in the early part of the year. Overall, for the markets in July, the STOXX Europe 600 Index advanced 7.3%. The United Kingdom's FTSE rose 3.2%. Japan's Nikkei 225 Index jumped 7.2%, while China's Shanghai Composite Index fell nearly 4.0%.

Consumer confidence: The Conference Board Consumer Confidence Index® decreased for a third consecutive month in July following a larger decline in June. The July index dipped 2.7 points to 95.7. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, declined to 141.3 in July, down from 147.2 in June. The Expectations Index, based on consumers' short-term outlook for income, business, and labor market conditions, declined to 65.3 in July (65.8 in June).

Eye on the Month Ahead

In August, investors will be looking for some clues as to the state of the economy, particularly in the aftermath of the Federal Reserve's

interest-rate hikes (the FOMC does not meet in August). The employment sector has shown some evidence of slowing, with a downturn in new hires and an increase in unemployment claims. The housing sector has also retreated from its torrid pace set earlier in the year. Nevertheless, economic indicators haven't shown an obvious curtailment in the pace of inflation.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

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