Market Insights - June 3, 2022

EQUITY MARKETS COOL AS WALL STREET HOLDS ITS BREATH HOPING THE FED CAN ENGINEER A SOFT LANDING WITHOUT CAUSING A RECESSION

- Investors were hopeful that last week's jump in equity markets would continue, but the holiday-shortened week reverted back to another weekly decline as worries about the economy, corporate earnings and the Fed dominated the news
- There were a lot of heavyweights painting a grim picture of the economic environment, including JPMorgan Chase CEO Jamie Dimon who said he sees an "economic hurricane" on the horizon
- Then Tesla CEO Elon Musk said he had a "super bad feeling" about the economy while he announced that that Tesla would cut about 10% of its staff
- Consumer confidence came in better than expected as did the ISM Manufacturing Index and nonfarm payroll increases
- Of the 11 S&P 500 sectors, 9 of them retreated, whereas the Energy sector (+1.2%) and Information Technology (+0.04%) gained
- Of the sectors that retreated on the week, Health Care (-3.1%), Real Estate (-2.2%), Financial (-2.1%), and Consumer Staples (-1.7%) all under-performed
- The 10-year Treasury yield jumped 20 basis points and came to rest at 2.94% whereas the 2-year Treasury yield ended at 2.67%
- The U.S. Dollar Index was up 0.5% to 102.16

Weekly Market Update – June 3, 2022

	Close	Week	YTD
DJIA	32,900	-0.9%	-9.5%
S&P 500	4,109	-1.2%	-13.8%
NASDAQ	12,013	-1.0%	-23.2%
Russell 2000	2,029	-0.3%	-16.1%
MSCI EAFE	2,029	-0.3%	-13.1%
Bond Index*	2,140.03	-1.48%	-9.13%
10-Year Treasury	2.94%	+0.20%	+1.4%

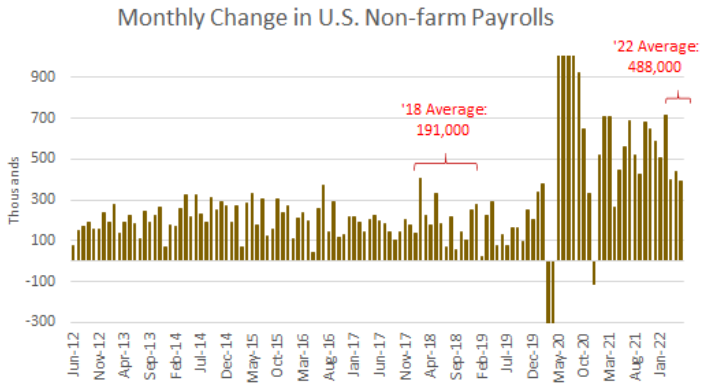
**Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results*

Equities Retreat After Last Week's Huge Jump

U.S. equities gave back some of the previous week's gains, as Wall Street continued to cast doubt over whether the Fed might engineer a soft landing as it seeks to curb inflation without triggering a recession.

While it was only a four-day trading week as markets were closed Monday in observance of Memorial Day, much of what unsettled investors were comments from JPMorgan Chase CEO Jamie Dimon who said he saw an "economic hurricane" coming. Then when Tesla CEO Elon Musk said he had a "super bad feeling" Wall Street was further unnerved. Finally, Musk capped off that comment with an announcement that Tesla needed to cut 10% of its workforce, freeze hiring and that its employees needed to return to offices.

There was a lot of economic data reported in the short-week, and much of it actually argued against a looming recession, especially on Friday when the Labor Department announced that employers added 390,000 nonfarm jobs, well ahead of expectations.



Source: Factset

And some of the week's data actually suggested economic growth, especially manufacturing data from the Institute for Supply Management.

Additional economic news included:

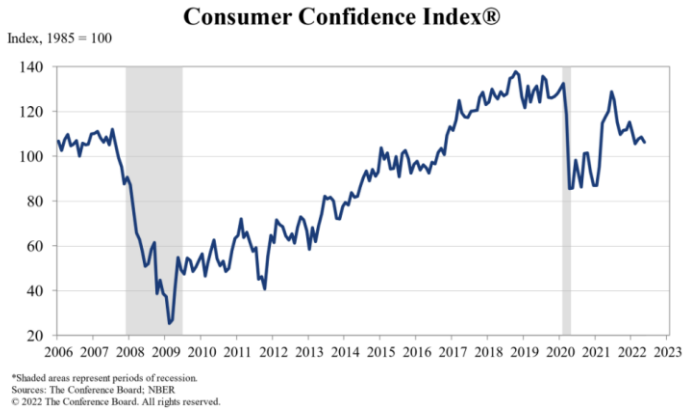
- The Chicago PMI beat expectations in May at 60.3 up from 56.4 in April
- The Conference Board's consumer confidence index fell to 106.4 in May after an upward revision to 108.6 in April
- The ISM manufacturing sector index rose to 56.1 in May after slipping to 55.4 in April from 57.1 in March
- Construction spending was up only 0.2%
- Residential spending rose 0.9%
- Job openings fell 455,000 in April to 11.4 million after a record high 11.9 million in March
- The ADP employment report showed private payrolls rose only 128,000 in May, below expectations

Initial jobless claims declined 11,000 to 200,000

Consumer Confidence Declines in May

On Monday, it was reported that the Conference Board Consumer Confidence Index decreased slightly in May, following a small increase in April. The Index now stands at 106.4 (1985=100), down from 108.6 in April.

- The Present Situation Index – based on consumers' assessment of current business and labor market conditions—declined to 149.6 from 152.9 last month.
- The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions—declined to 77.5 from 79.0.



"The decline in the Present Situation Index was driven solely by a perceived softening in labor market conditions. By contrast, views of current business conditions – which tend to move ahead of trends in jobs – improved. Overall, the Present Situation Index remains at strong levels, suggesting growth did not contract further in Q2. That said, with the Expectations Index weakening further, consumers also do not foresee the economy picking up steam in the months ahead. They do expect labor market conditions to remain relatively strong, which should continue to support confidence in the short run.

"Meanwhile, purchasing intentions for cars, homes, major appliances, and more all cooled – likely a reflection of rising interest rates and consumers pivoting from big-ticket items to spending on services. Vacation plans have also softened due to rising prices. Indeed, inflation remains top of mind for consumers, with their inflation expectations in May virtually unchanged from April's elevated levels. Looking ahead, expect surging prices and additional interest rate hikes to pose continued downside risks to consumer spending this year."

Construction Spending Up Slightly

The U.S. Census Bureau announced construction statistics for April 2022:

Total Construction

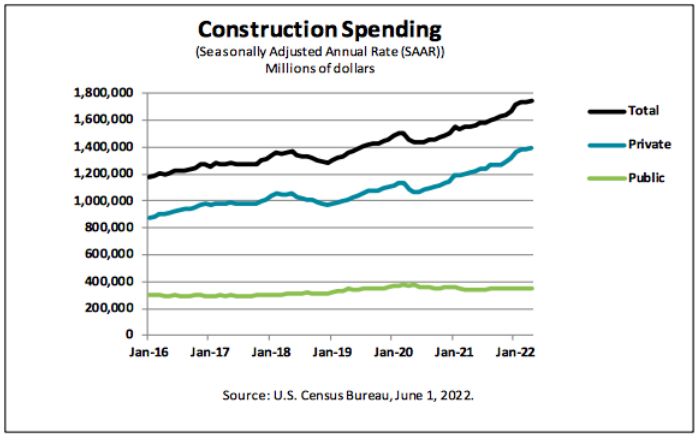
- Construction spending during April 2022 was 0.2% above March
- The April figure is 12.3% above the April 2021 estimate
- During the first four months of this year, construction spending amounted to $520.8 billion, 12.4% above the same period in 2021

Private Construction

- Spending on private construction was 0.5% above March
- Residential construction was 0.9% above March
- Nonresidential construction was 0.2% below March

Public Construction

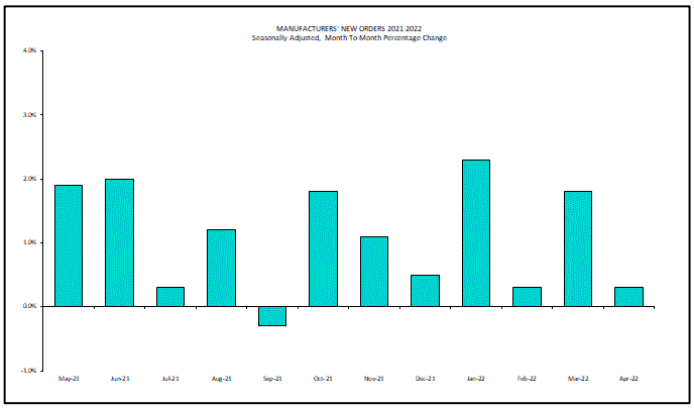
- In April, construction spending was $350.1 billion, 0.7% below March
- Educational construction was 0.7% below March
- Highway construction was 0.1% below March



Manufactured Goods Up in April

On Thursday, the U.S. Census Bureau announces the April full report on manufacturers' shipments, inventories and orders:

- New orders for manufactured goods in April, up eleven of the last twelve months, increased $1.8 billion or 0.3%. This followed a 1.8% March increase.
- Shipments, up twenty-three of the last twenty-four months, increased $0.9 billion or 0.2%. This followed a 2.2 percent March increase
- Unfilled orders, up twenty consecutive months, increased $6.0 billion or 0.5%. This followed a 0.5% March increase
- The unfilled orders-to-shipments ratio was 6.07, up from 6.06 in March
- Inventories, up twenty of the last twenty-one months, increased $4.4 billion or 0.6%. This followed a 1.4% March increase
- The inventories-to-shipments ratio was 1.48, up from 1.47 in March.



Sources: census.gov; conference-board.org; msci.com; fidelity.com;nasdaq.com; wsj.com; bea.gov; morningstar.com;