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Market Week: August 29, 2022



The Markets (as of market close August 26, 2022)

Despite evidence that inflation may be slowing, the central bank is committed to fighting inflation, according to last Friday's speech from Federal Reserve Chair Jerome Powell. Wall Street may have held out hope that the Fed would scale back its aggressive bent to reel in rising prices, but that wish apparently turned to disappointment after Powell stated that "Restoring price stability will likely require maintaining a restrictive policy stance for some time." In response, traders moved away from stocks, sending each of the benchmark indexes listed here notably lower. All 11 market sectors of the S&P 500 closed lower, with information technology, communication services, and consumer discretionary declining the furthest. Ten-year Treasury yields closed last week up 5.0 basis points. Crude oil prices rose over \$3.00 but remained well below \$100 per barrel. The dollar advanced, while gold prices slid lower.

Last Monday saw Wall Street suffer its worst day in nearly two months as each of the benchmark indexes listed closed sharply lower. Investors have been bracing for a hawkish tone from Federal Reserve officials at the Jackson Hole retreat later in the week. The Nasdaq underperformed, falling 2.6%. The S&P 500, which was heading for its best start to a third quarter since 1932, dropped 2.1%. The Dow, which lost over 600 points, ended the session down 1.9%. The small caps of the Russell 2000 declined 2.1%, and the Global Dow lost 1.5%. Ten-year Treasury yields surpassed 3.00% for the first time since mid-July after adding 4.8 basis points. Crude oil prices ended the day relatively flat to close at about \$90.67 per barrel. The dollar rose nearly 1.0%, while gold prices fell nearly 1.0%.

Stocks were mixed last Tuesday, with the Dow (-0.5%) and the S&P 500 (-0.2%) sliding; the Nasdaq and the Global Dow ended flat, while the Russell 2000 (0.2%) inched higher. Crude oil prices jumped \$3.24 to hit \$93.60 per barrel. The dollar fell, while gold prices advanced. Ten-year Treasury yields added 1.7 basis points to reach 3.05%. Despite slipping lower, the yield on two-year Treasuries was 3.30%, still well above the yield on 10-year Treasuries, creating an inverted yield curve, a possible indicator of a future recession.

Equities edged marginally higher last Wednesday, following a day of relatively light trading. Investors may have been waiting for the government's next move as it battles inflationary pressures. The Russell 2000 gained 0.8%, followed by the Nasdaq (0.4%), the S&P 500 (0.3%), and the Dow (0.2%). The Global Dow ended the day flat. Ten-year Treasury yields added 5.2 basis points to close at 3.10%. Crude oil prices rose to \$95.37 per barrel. The dollar dipped lower, while gold prices advanced.

Stocks ended higher last Thursday as investors plucked low-hanging stocks following recent downturns. The Nasdaq (1.7%), the Russell 2000 (1.5%), and the S&P 500 (1.4%) notched solid gains. The Dow and the Global Dow rose 1.0% by the end of the trading session. Among the market sectors, energy, materials, financials, and industrials led the way. Ten-year Treasury yields fell 8.0 basis points, closing at 3.02%. The dollar and crude oil prices slid lower, while gold prices advanced for the third consecutive day.

Wall Street plunged last Friday on the heels of Fed Chair Jerome Powell's hawkish Jackson Hole speech. The S&P 500 (-3.4%) had its worst day since the middle of June, and the Nasdaq lost 4.0%. Powell said that another "unusually large" interest-rate increase may be in the offing next month. The Russell 2000 (-3.2%), the Dow (-3.0%), and the Global Dow (-1.9%) also closed in the red. Ten-year Treasury yields rose 9.0 basis points to reach 3.03%. The dollar and crude oil prices increased, while gold prices ended a three-day rally, falling \$21.50 per ounce.

Key Dates/Data Releases

8/30: JOLTS

9/1: Markit manufacturing PMI

9/2: Employment situation

Stock Market Indexes

| Market/Index | 2021 Close | Prior Week | As of 8/26 | Weekly Change | YTD Change |
|------------------------|-------------|-------------|-------------|---------------|------------|
| DJIA | 36,338.30 | 33,706.74 | 32,283.40 | -4.22% | -11.16% |
| Nasdaq | 15,644.97 | 12,705.21 | 12,141.71 | -4.44% | -22.39% |
| S&P 500 | 4,766.18 | 4,228.48 | 4,057.66 | -4.04% | -14.87% |
| Russell 2000 | 2,245.31 | 1,957.35 | 1,899.84 | -2.94% | -15.39% |
| Global Dow | 4,137.63 | 3,689.63 | 3,607.69 | -2.22% | -12.81% |
| Fed. Funds target rate | 0.00%-0.25% | 2.25%-2.50% | 2.25%-2.50% | 75 bps | 225 bps |
| 10-year Treasuries | 1.51% | 2.98% | 3.03% | 5 bps | 152 bps |
| US Dollar-DXY | 95.64 | 108.09 | 108.81 | 0.67% | 13.77% |
| Crude Oil-CL=F | \$75.44 | \$90.05 | \$92.91 | 3.18% | 23.16% |
| Gold-GC=F | \$1,830.30 | \$1,760.90 | \$1,749.90 | -0.62% | -4.39% |

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

Last Week's Economic News

- According to the second estimate of second-quarter gross domestic product, the economy contracted by 0.6%. GDP decreased 1.6% in the first quarter. Consumer spending, up 1.5% in the second quarter, has buoyed the economy, which is otherwise feeling the negative effects of elevated inflation, supply chain disruptions, and higher interest rates. Gross investment fell 13.2%, as residential investment dropped 16.2% and investment in nonresidential structures decreased 13.2%. The personal consumption expenditures price index, a measure of inflation, increased 7.1% in the second quarter. Excluding food and energy, consumer prices rose 4.4%.
- The personal consumption expenditures price index dipped 0.1% in July, according to the latest personal income and outlays report. July also saw the consumer price index, import and export prices, and producer prices either flat or decreasing. The PCE price index rose 1.0% in June. Excluding food and energy, prices increased 0.1%. Personal consumption expenditures, a measure of consumer spending, inched up 0.1% in July. Consumers spent more on services, which rose 0.3%, while expenditures on goods slipped 0.2%. Consumer spending increased in housing and utilities and "other" services (mainly international travel), while a decrease in spending on gasoline and energy contributed to the decrease in spending on goods. Both personal income and disposable (after-tax) personal income rose 0.2% in July.
- The international trade in goods deficit fell 9.7% in July. Exports declined 0.2% and imports dropped 3.5%. Only exports of automotive vehicles, etc., and capital goods increased in July. Exports of foods, feeds, and beverages; industrial supplies; and consumer goods decreased. The 3.5% decline in July imports followed a 0.4% decrease in June, evidencing a slowdown in domestic demand.
- The housing sector continued to slump in July. According to the latest data from the Census Bureau, sales of new single-family homes fell 12.6% from their June total. Sales are down 29.6% from July 2021. Despite the decline, home prices rose in July. The median sales price of new homes sold in July was \$439,400, up from June's median price of \$414,900. The July average price was \$546,800, nearly 20.0% over the June average sales price of \$457,300. Both the median and average sales prices for new single-family homes were well above their respective values from a year ago. The July 2022 median price was 8.2% above the July 2021 price, while the average sales price in July was 18.2% higher than the July 2021 price. The number of new single-family homes for sale rose in July from the previous month. The inventory sits at a 10.9-month supply, up from the June figure of 9.2 months.
- The total value of new orders for manufactured durable goods in July was essentially unchanged from the previous month. Excluding transportation, new orders increased 0.3%. Excluding defense, new orders rose 1.2%. Transportation equipment, slipped 0.7% in July, following three consecutive monthly increases. Shipments of durable goods increased in July for the 14th of the last 15 months. New orders for nondefense capital goods in July increased 2.8%, while new orders for defense capital goods rose 8.7%. Since July 2021, new orders for durable goods have increased 10.8%.
- The national average retail price for regular gasoline was \$3.880 per gallon on August 22, \$0.058 per gallon below the prior week's price but \$0.735 higher than a year ago. Also as of August 22, the East

Coast price decreased \$0.090 to \$3.766 per gallon; the Gulf Coast price fell \$0.025 to \$3.403 per gallon; the Midwest price dropped \$0.025 to \$3.730 per gallon; the West Coast price slid \$0.065 to \$4.849 per gallon; and the Rocky Mountain price fell \$0.061 to \$4.152 per gallon. Residential heating oil prices averaged \$3.701 per gallon on August 19, about \$0.183 per gallon more than the prior week's price. According to the U.S. Energy Information Administration report of August 24, members of OPEC will earn about \$842 billion in oil export revenue in 2022, the most inflation-adjusted net oil export revenue for the group since 2014. OPEC liquids production and crude oil prices in 2022 will be nearly 50.0% greater than in 2021. According to the report, crude oil prices had been generally increasing since late 2020, when global consumption began to outpace production, resulting in inventory draws. However, prices further increased sharply following Russia's invasion of Ukraine in February 2022.

- For the week ended August 20, there were 243,000 new claims for unemployment insurance, a decrease of 2,000 from the previous week's level, which was revised down by 5,000. According to the Department of Labor, the advance rate for insured unemployment claims for the week ended August 13 was 1.0%, unchanged from the previous week's rate. The advance number of those receiving unemployment insurance benefits during the week ended August 13 was 1,415,000, a decrease of 19,000 from the previous week's level, which was revised down by 3,000. States and territories with the highest insured unemployment rates for the week ended August 6 were New Jersey (2.2%), Puerto Rico (2.2%), California (1.9%), Connecticut (1.8%), Rhode Island (1.8%), Massachusetts (1.6%), New York (1.6%), Pennsylvania (1.4%), Alaska (1.2%), Illinois (1.2%), and Nevada (1.2%). The largest increases in initial claims for the week ended August 13 were in Oklahoma (+1,419), Missouri (+1,014), Indiana (+691), Virginia (+404), and Michigan (+318), while the largest decreases were in California (-3,185), Ohio (-1,659), Georgia (-946), South Carolina (-847), and Pennsylvania (-617).

Eye on the Week Ahead

The employment figures for August are released this week. The labor sector has been quite strong for much of the year. July saw over 500,000 new jobs added, while average weekly wages have risen 5.2% over the past 12 months.

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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