



## Summary

U.S. stocks rallied on Friday on strong earnings reports from Apple and Amazon. All three major U.S. stock indexes ended the week in the green with the Dow Jones Industrial Average rising 3.0%, the S&P 500 climbing 4.3%, and the NASDAQ advancing 4.7%. The Federal Reserve increased the target range for the federal funds rate 75 basis points at last week's policy meeting; after the meeting concluded, Chair Powell suggested rate hikes may slow in coming months. Economic reports were mixed. After declining in the 1<sup>st</sup> quarter, the U.S. economy contracted in the 2<sup>nd</sup> quarter of 2022, heightening recession fears. Real gross domestic product (GDP) decreased at a 0.9% annual pace in the 2<sup>nd</sup> quarter

compared with expectations for a 0.5% increase; consumer spending rose at a 1.0% annualized rate in the 2<sup>nd</sup> quarter. Real final sales of domestic product, which strips out inventory adjustments, increased 1.1%. Personal income advanced 0.6% in June and personal spending climbed 1.1%; the personal savings rate fell 0.4 percentage points to 5.1%. The Fed's preferred gauge of inflation, the core Personal Consumption Expenditures (PCE) price index, increased 0.6% in June and was up 4.8% from a year earlier. Home prices continued to appreciate rapidly in May; the Case-Shiller 20-City Index advanced 20.5% from May 2021 and the Federal Housing Finance Agency's May Housing Price

Index jumped 18.3% from a year earlier. Rising mortgage rates are impacting the housing market. Pending home sales fell 8.6% last month and were down 20.0% from a year earlier. New home sales, which are counted when a contract is signed, tumbled in June and were down 17.4% on a year-over-year basis. Orders for durable goods rose 1.9% in June compared with expectations for a 0.8% increase; orders for core capital goods—a proxy for business investment—were up 0.5%. Initial unemployment claims for the week ending July 23 decreased 5,000 to 256,000.

## ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
<b>FHFA Housing Price Index (May – Tu 9:00)</b>	+1.4%	NA	+18.3% from May 2021
<b>S&amp;P Case-Shiller 20-City Index (May – Tu 9:00)</b>	+20.5%	+20.8%	Double-digit increases in all 20 cities
<b>Consumer Confidence (Jul – Tu 10:00)</b>	95.7	96.4	Third consecutive monthly decline
<b>New Home Sales (Jun – Tu 10:00)</b>	590 TUAR	670 TUAR	-17.4% from June 2021
<b>Durable Orders (Jun – We 8:30)</b>	+1.9%	-0.5%	Orders for core capital goods rose 0.5%
<b>Durable Orders ex-transportation (Jun – We 8:30)</b>	+0.3%	+0.3%	Transportation equipment orders jumped 5.1%
<b>Pending Home Sales (Jun – We 10:00)</b>	-8.6%	-1.5%	Sales fell in all regions
<b>FOMC Rate Decision (Jul – We 2:00)</b>	2.25%-2.5%	2.25%-2.5%	Rate hikes may slow in coming months
<b>Real Gross Domestic Product (Qtr 2 – Th 8:30)</b>	-0.9%	+0.5%	Real final sales increased 1.1%
<b>Chain Deflator (Qtr 2 – Th 8:30)</b>	+8.7%	+7.1%	
<b>Initial Unemployment Claims (7/16 – Th 8:30)</b>	256 K	253 K	4-week moving average rose 6,250 to 249,250
<b>Continuing Claims (7/9 – Th 8:30)</b>	1,359 K	NA	
<b>Personal Income (Jun – Fr 8:30)</b>	+0.6%	+0.5%	Real disposable personal income fell 0.3%
<b>Personal Spending (Jun – Fr 8:30)</b>	+1.1%	+0.9%	Real personal spending edged up 0.1%
<b>PCE Prices – Core (Jun – Fr 8:30)</b>	+0.6%	+0.6%	+4.8% from June 2021
<b>Michigan Sentiment (Jul – Fr 10:00)</b>	51.5	51.1	
Upcoming Week: Indicator	Consensus Expectation*	Last Period	Comment
<b>Construction Spending (Jun – Mo 10:00)</b>	+0.2%	-0.1%	
<b>ISM Manufacturing Index (Jul – Mo 10:00)</b>	52.5%	53.0%	
<b>Factory Orders (Jun – We 10:00)</b>	+0.9%	+1.6%	
<b>ISM Services Index (Jul – We 10:00)</b>	53.8%	55.3%	
<b>Initial Unemployment Claims (7/23 – Th 8:30)</b>	260 K	256 K	
<b>Continuing Claims (7/16 – Th 8:30)</b>	NA	1,359 K	Not available
<b>Trade Balance (Jun – Th 8:30)</b>	-\$81.7 Bil.	-\$85.5 Bil.	
<b>Nonfarm Payrolls (Jul – Fr 8:30)</b>	+250 K	+372 K	
<b>Nonfarm Private Payrolls (Jul – Fr 8:30)</b>	+200 K	+381 K	
<b>Average Hourly Earnings (Jul – Fr 8:30)</b>	+0.3%	+0.3%	
<b>Unemployment Rate (Jul – Fr 8:30)</b>	3.6%	3.6%	
<b>Average Workweek (Jul – Fr 8:30)</b>	34.5	34.5	
<b>Consumer Credit (Jun – Fr 3:00)</b>	-\$24.7 Bil.	-\$22.3 Bil.	



# Economic Review

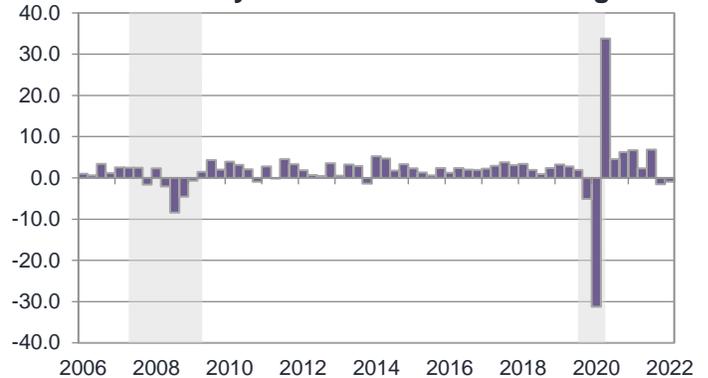
The U.S. economy contracted for a second consecutive quarter from April through June. According to the Commerce Department's advance estimate, real GROSS DOMESTIC PRODUCT (GDP) decreased 0.9% at an annualized pace in the 2<sup>nd</sup> quarter after falling 1.6% in the 1<sup>st</sup> quarter. Adding 0.70 percentage points to growth, consumer expenditures advanced at a 1.0% annual rate in the 2<sup>nd</sup> quarter compared with a 1.8% increase in the 1<sup>st</sup> quarter. Gross private domestic investment dropped 13.5% in the 2<sup>nd</sup> quarter. Nonresidential investment spending decreased at a 0.1% annual rate while residential investment spending was down 14.0% in the 2<sup>nd</sup> quarter after advancing 0.4% in the 1<sup>st</sup> quarter. Government spending declined at a 1.9% annual rate as federal government spending decreased 3.2% and state and local government spending was down 1.2%. Net exports of goods and services added 1.43 points to growth last quarter while change in private inventories subtracted 2.01 percentage points from growth. Real final sales decreased 1.1%. The GDP PRICE INDEX climbed 8.7% in the 2<sup>nd</sup> quarter after jumping 8.2% in the 1<sup>st</sup> quarter.

declined 0.4 percentage points to 5.1% in June. The PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX rose 1.0% in June after climbing 0.6% in May. The PCE price index excluding food and energy increased 0.6% after advancing 0.3% in May. From a year earlier, the price index for PCE surged 6.8% and the core PCE price index was 4.8% higher.

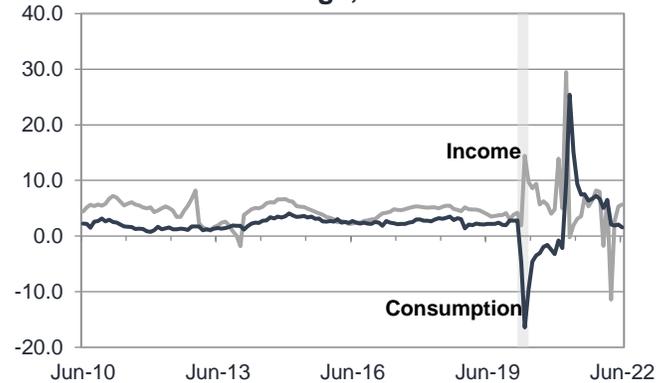
Orders for U.S. manufactured goods intended to last at least three years increased unexpectedly in June and orders for core capital goods rose at a healthy pace. After advancing an upwardly revised 0.8% in May, DURABLE GOODS ORDERS were up 1.9% in June compared with expectations for a 0.5% decline. Transportation orders jumped 5.1% after advancing 1.5% in May. After increasing 0.5% in May, durable goods orders excluding transportation were up 0.3% in June. Orders for non-defense capital goods excluding aircraft, a proxy for business investment, climbed 0.5% after advancing 0.5% in May. Shipments of non-defense capital goods excluding aircraft—used in the GDP report—rose 0.7% after increasing 1.0% in May.

Both personal income and personal spending increased more than expected in June. After rising an upwardly revised 0.6% in May, PERSONAL INCOME advanced 0.6% in June. Disposable personal income was up 0.7% after rising 0.6% in May; real disposable personal income decreased 0.3%, however. PERSONAL CONSUMPTION climbed 1.1% after increasing 0.3% in May. When adjusted for inflation, personal spending was up 0.1%. The savings rate

### Real Gross Domestic Product Quarterly Annualized Percent Change



### Personal Income and Consumption Percent Change, Year-Over-Year



### Durable Goods Orders Trillions of Dollars





## Fed Speeches

The Federal Open Market Committee (FOMC) met last week and raised the target range for the federal funds rate to 2.25% to 2.50%. The FOMC statement noted that inflation remains high "because of supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures" but that "job gains have been robust in recent months, and the unemployment rate has remained low." The FOMC also said it remains very focused on inflation.

*Russia's war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are*

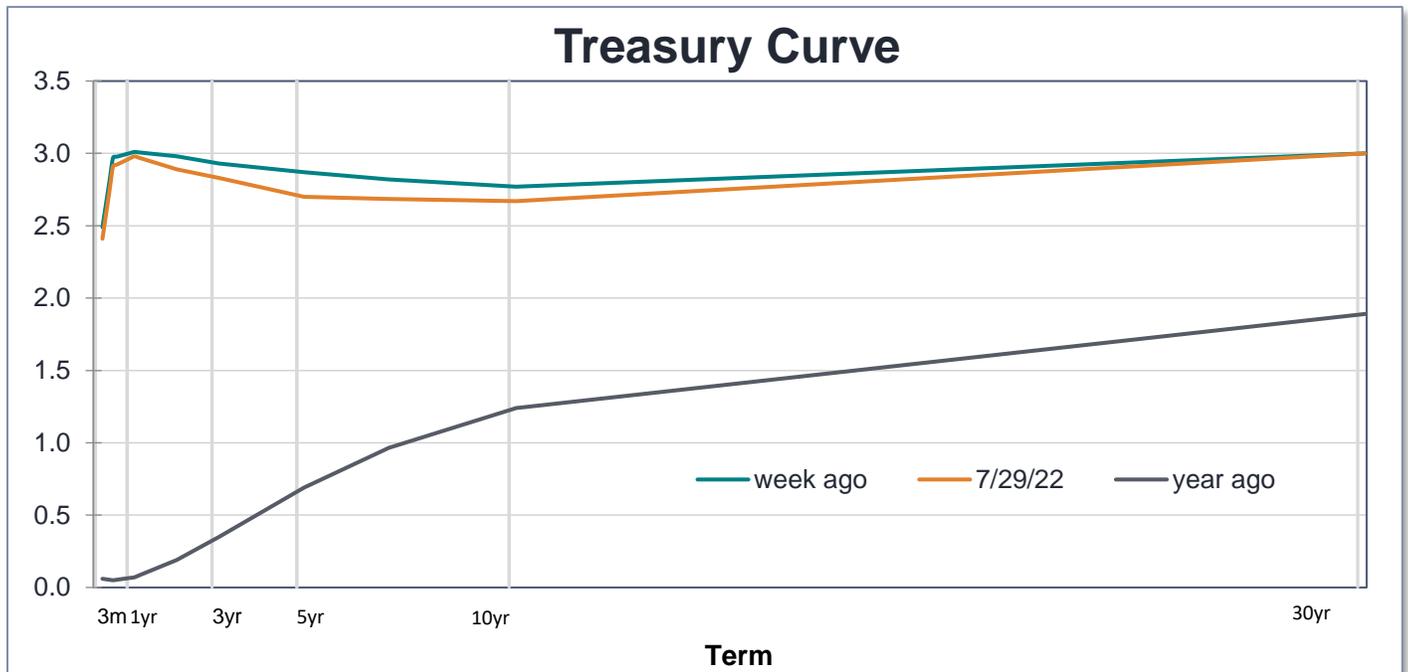
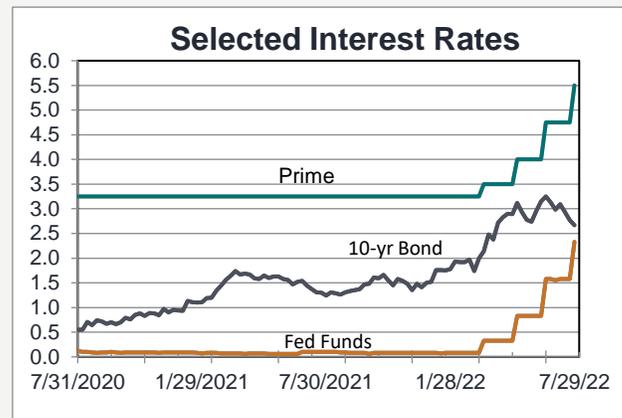
*weighing on global economic activity. The Committee is highly attentive to inflation risks.*

The Committee went on to say that it is prepared to continue increasing the target range for the federal funds rate as it tries to control inflation.

*The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 2-1/4 to 2-1/2 percent and anticipates that ongoing increases in the target range will be appropriate.*

## Financial Markets

U.S. stocks climbed last week with the Dow Jones Industrial Average advancing 3.0%, the S&P 500 rising 4.3%, and the NASDAQ increasing 4.7%. Treasury yields were generally lower with the 10-year yield dropping 10 basis points (bps) to 2.67% while the 30-year yield held steady at 3.00%. Oil prices climbed 4.2% and ended the week at \$98.62 per barrel. The U.S. dollar decreased 2.1% against the Japanese yen and the euro edged up 0.1% against the greenback last week.





## Interest Rate Forecast\*

The Federal Open Market Committee (FOMC) raised the federal funds rate target to 2.25% to 2.50% at the Fed's July policy meeting. In the statement released following the July meeting, the FOMC said, "Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months and the

unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances

related to the pandemic, higher food and energy prices, and broader price pressures." The statement

went on to say that the Committee "anticipates that ongoing increases in the target range will be appropriate."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3 <sup>rd</sup> Qtr '22	5.25	2.28	2.07	3.13	3.37	3.22	3.42	5.60
4 <sup>th</sup> Qtr	6.50	3.38	3.39	3.91	4.07	3.96	4.03	6.02
1 <sup>st</sup> Qtr '23	7.41	4.29	4.33	4.44	4.50	4.60	4.62	6.28
2 <sup>nd</sup> Qtr	7.08	3.96	3.99	4.04	4.15	4.31	4.37	5.86
3 <sup>rd</sup> Qtr	6.66	3.54	3.56	3.62	3.79	4.00	4.23	5.63

\*Forecast as of July 25, 2022

### FINANCIAL MARKET SUMMARY

	As of 7/29/2022	As of 7/22/2022	Weekly Change	4-Week Change	13-Week Change
<b>MONEY MARKETS (Changes in BPs)</b>					
Prime	5.50	4.75	75	75	200
LIBOR Index Base Rate (1Month)	2.35	2.16	19	68	160
Fed Funds (Wed close)	2.33	1.58	75	78	200
<b>TREASURIES (BE) (Changes in BPs)</b>					
3 Months	2.41	2.49	(8)	69	156
6 Months	2.91	2.97	(6)	40	150
1 Year	2.98	3.01	(3)	18	88
2 Years	2.89	2.98	(9)	(3)	19
5 Years	2.70	2.87	(17)	(31)	(22)
10 Years	2.67	2.77	(10)	(31)	(22)
30 Years	3.00	3.00	0	(14)	4
<b>MUNICIPALS- AAA G.O. &amp; Mortgage (Changes in BPs)</b>					
2-Year Muni	1.60	1.71	(11)	(30)	(62)
5-Year Muni	1.84	2.01	(17)	(38)	(66)
10-Year Muni	2.27	2.45	(18)	5	(45)
30-Year Muni	2.93	3.04	(11)	(27)	(14)
30-Year Conventional Mortgage	5.30	5.54	(24)	(40)	20
<b>MARKET INDICATORS (Changes in %)</b>					
DJIA	32,845.13	31,899.29	3.0	5.6	(0.4)
S&P 500	4,130.29	3,961.63	4.3	8.0	(0.0)
NASDAQ	12,390.69	11,834.11	4.7	11.3	0.5
CRB Futures	312.08	300.29	3.9	0.2	(4.9)
Oil (WTI Crude)	98.62	94.66	4.2	(9.0)	(5.5)
Gold	1,781.80	1,740.10	2.4	(1.1)	(6.1)
Yen / Dollar	133.27	136.06	(2.1)	(1.4)	2.6
Dollar / Euro	1.02	1.02	0.1	(1.9)	(3.1)



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