Week Ending 6/10/2022

WEEK IN **PERSPECTIVE**

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Growth concerns at the heart of large losses

The major indices pushed higher on Monday and Tuesday, but from Wednesday to Friday it was all downhill. It was a steep decline, too. After Tuesday's session, the S&P 500 was up 1.3% for the week. By the close on Friday, the S&P 500 was down 5.1% for the week and sitting at 3,900.

A succinct summation of this week's action boils down to a contention that growth concerns were at the heart of it. There were multiple developments contributing to those concerns:

- Target cut its Q2 operating margin guidance to around 2%, only three weeks after saying it would be 5.3%, citing a need to clear excess inventory.
- Intel said the macro environment has been weaker and that circumstances at this point are much worse than it had anticipated coming into the quarter.
- Scotts Miracle-Gro slashed its FY22 EPS outlook well below the consensus estimate, noting its fixed cost structure has seen significantly greater pressure due to replenishment orders from retail partners not being what it expected since mid-May
- WTI crude futures went as high as $123.18/bbl while natural gas futures hit $9.66/mmbtu.
- The OECD cut its 2022 global GDP view to 3.0% from 4.5% and the Atlanta Fed's GDPNow model estimate for Q2 was reduced to 0.9% from 1.3%.
- The Reserve Bank of Australia and the Reserve Bank of India both raised their key policy rates more than expected.
- The ECB said it intends to raise its key interest rates by 25 basis points at the July meeting and that it will follow suit with more rate hikes in September and beyond. It also announced the end of its net asset purchase program on July 1 and raised its 2022 annual inflation forecast to 6.8% from 5.1% and its 2023 annual inflation forecast to 3.5% from 2.1%.
- Several Shanghai districts were back in lockdown for COVID testing and entertainment venues in a Beijing district were closed amid COVID concerns.
- The Index of Consumer Sentiment for June hit the lowest level on record (50.2) dating back to 1978.
- Total CPI increased 8.6% year-over-year in May, marking its largest increase since December 1981. Core CPI was up 6.0% year-over-year, down from 6.2% in April but still a long way from the Fed's longer-run inflation goal of 2.0%.

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The latter was the punctuating factor in an otherwise lousy week, as it sparked concerns about the Fed pursuing more aggressive policy actions to get inflation under control. Those concerns showed up in the Treasury market on Friday, as well as in the stock market.

The 2-yr note yield spiked 22 basis points to 3.04% following the CPI report while the 10-yr note yield jumped 11 basis points to 3.16%. That left the 2s10s spread at just 12 basis points versus 27 basis points when the week began.

The S&P 500 for its part fell nearly 3.0% on Friday (the Nasdaq dropped 3.5%) on broad-based selling interest. The main issue for market participants wasn't just the worrisome inflation news. Rather, it was the recognition that the Fed is apt to be more aggressive with its policy actions, which will crimp economic growth prospects and, in turn, crimp earnings prospects.

Accordingly, there were pressing doubts that the market provided true value at current levels because forward earnings estimates have yet to come down in any meaningful fashion despite a lot of writing on the wall that suggests the economic climate ahead is going to be much more challenging.

The selling, therefore, was widespread, finishing off a week that featured losses for all 11 S&P 500 sectors ranging from 0.9% to 6.8%.

The best-performing sector of the week was energy. It declined 0.9%, having been insulated somewhat from the selling that hit hard elsewhere on account of the rise in energy prices. The next best-performing sector was consumer staples, which fell "only" 2.6%.

The hardest-hit sectors this week were financials (-6.8%), information technology (-6.4%), real estate (-6.2%), consumer discretionary (-6.1%), and materials (-5.8%). Separately, the Dow Jones Transportation Average declined 7.5%.

- Dow Jones Industrial Average: -13.6% YTD
- S&P 400: -15.4% YTD
- S&P 500: -18.2% YTD
- Russell 2000: -19.7% YTD
- Nasdaq Composite: -27.5% YTD