MIDWEST FINANCIAL

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The SITREP for the week ending 07/22/2022

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SIT REP: n. a report on the current situation; a military abbreviation; from "situation report".

In the markets:

U.S. Markets: **Equity markets carried over their momentum from the end of last week** as investors welcomed signs of fading inflationary pressures and decent corporate earnings. **Small-cap stocks and the technology-heavy NASDAQ Composite outperformed the other indices.** The Dow Jones Industrial Average added 611 points finishing the week at 31,899—a gain of 2%. The NASDAQ retraced all of last week's decline and then some closing up 3.3% to 11,834. **By market cap, the large cap S&P 500 gained 2.5%, while the mid cap S&P 400 rallied 4% and the small cap Russell 2000 ended the week up 3.6%.**

International Markets: **International markets were all green as well.** Canada's TSX rose 3.2%, while the United Kingdom's FTSE 100 added 1.6%. On Europe's mainland, France's CAC 40 and Germany's DAX each gained 3%, while in Asia, China's Shanghai Composite added 1.3%. Japan's Nikkei rallied 4.2%--its third consecutive week of gains. **As grouped by Morgan Stanley Capital International, emerging markets finished the week up 2% and developed markets closed up 3.3%.**

Commodities: **Commodities were predominantly to the upside, too** - with a slight twist. Precious metals rose with Gold adding 1.4% to $1727.40 per ounce, while Silver added 0.1% to $18.62. The industrial metal Copper, which has plunged over the last six weeks, managed to rebound 3.6%. Copper is often seen as a good indicator of future economic growth due to its wide variety of industrial and residential uses. **The oil market had a rare divergence between the two major oil benchmarks: West Texas Intermediate crude oil closed down -3% to $94.70 per barrel, while Brent crude gained 2.4% to $103.60.**

U.S. Economic News: **The U.S. labor market remains resilient despite some deteriorating economic reports, but is losing some of its luster.** The number of Americans filing for first time unemployment benefits jumped by 7,000 to 251,000 last week, the Labor Department reported. Economists had expected new claims would tick down by 4,000 to 244,000. Claims have steadily risen since hitting a low of 166,000 in March—the lowest level of claims since 1968. Meanwhile, the number of people already collecting jobless benefits rose by 51,000 to 1.38 million. That number remains near historic lows.

Sales of existing homes fell by 5.4% to a seasonally-adjusted annual rate of 5.12 million in June, the National Association of Realtors (NAR) reported. The reading missed economists' expectations for a reading of 5.36 million. **This is the weakest level of sales since June 2020**, shortly after the beginning of COVID lockdowns. Compared with the same time last year, home sales were down 14.2%. The median price for an existing home rose to a record $416,000 up 13.4% from June 2021. Expressed in terms of the months-supply metric, there was a 3-month supply of homes for sale in June, up from 2.6 months in May. Before the pandemic, a four-month supply was more the norm. Lawrence Yun, chief economist at the NAR, stated **the drop in existing home sales was "clearly due to the plunging affordability"** primarily driven by higher home prices and mortgage rates.

The news from homebuilders mirrored the report from realtors. **Confidence among the nation's home builders plunged in July, its second-largest drop in the history of the National Association of Home Builders (NAHB) survey.** The NAHB reported its homebuilder confidence index fell 12 points to 55, its seventh consecutive monthly decline. **The decline was much larger than expected.** Economists had expected a reading of 66. One year ago, the index stood at 80—the latest reading is its lowest since May of 2020. All three gauges that make up the index declined. The measure that tracks current sales conditions fell by 12 points, while the component that measures prospective buyer traffic fell by 11. The gauge that assesses sales expectations for the next six months also fell 11 points. **Builder confidence was weak across the entire country.** In the Northeast confidence fell by 6 points; in the Midwest by 4; in the South by 8; and the West by 12. NAHB Chairman Jerry Konter, a builder in Savannah, Georgia stated, "Production bottlenecks, rising home building costs and high inflation are causing many builders to halt construction because the cost of land, construction and financing exceeds the market value of the home."

Construction of new homes fell a seasonally-adjusted 2% in June to an annual rate of 1.56 million, the Commerce Department reported. On annual basis, total housing starts fell 6.3% from the previous year. Economists had expected housing starts to rise to a 1.59 million rate from June's initial estimate of 1.55 million. Richard Moody, chief economist at Regions Financial noted even though demand for homes in the U.S. is cooling, "builders will remain busy for some time working down backlogs of unfilled orders, even allowing for rising cancellations." But the drop in housing starts, which follows weak sentiment expressed by homebuilders in July, hints at further gloominess in the housing sector.

A preliminary 'flash' reading of the vast services side of the U.S. economy showed a "worrying deterioration". S&P Global Market Intelligence reported its **U.S. services Purchasing Managers' Index (PMI) fell to a 26-month low of 47 in July, from 51.6 in the prior month.** Readings below 50 signify contraction. Also in the report, the manufacturing flash PMI slid to 52.3 from 52.7. That was the weakest level in two years as well. Chris Williamson, chief business economist at S&P Global Market Intelligence stated, **"The preliminary PMI data for July point to a worrying deterioration in the economy. Manufacturing has stalled and the service sector's rebound from the pandemic has gone into reverse**, as the tailwind of pent-up demand has been overcome by the rising cost of living, higher interest rates and growing gloom about the economic outlook."

International Economic News: **There's been a lot of talk about the dreaded "R-word" globally, but according to two Scotiabank economists those worries are overblown, for Canada at least.** Jean-Francois Perrault and Rene Lalonde wrote "record levels of pent-up demand are expected to keep household consumption spending elevated despite rising interest rates, low consumer confidence, decades-high inflation, and weaker financial markets." **"This pent-up demand is expected to keep the Canadian economy from going into recession."** In the report, they've been closely monitoring discretionary spending data such as dining out. "This type of spending is usually the first to be foregone when households watch their expenses," the economists wrote, pointing to food and travel. In fact, diner numbers were 20% above 2019 levels as of July 16 this year.

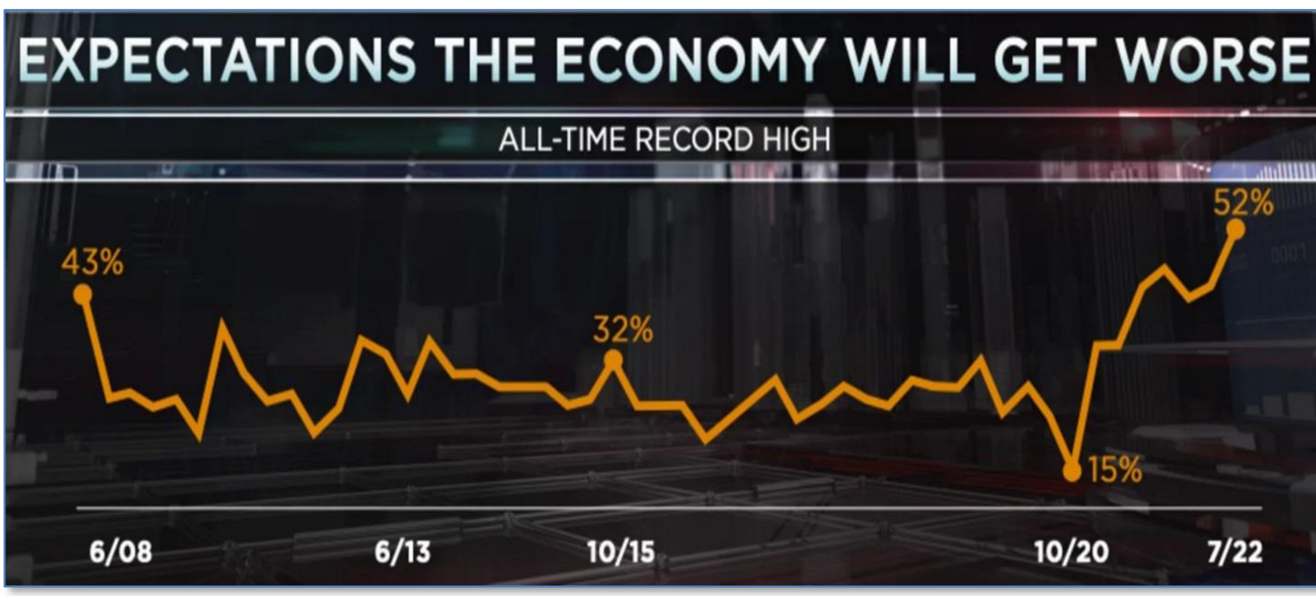
Across the Atlantic, the **United Kingdom's economy is forecast to grow 3.7% this year and 1.0% in 2023**, according to the latest EY Item Club data. **The new forecast is a downgrade** from May's 4.1% and 1.9% expectations. The downward revisions come thanks to the continued squeeze on households' real incomes from higher inflation, supply chain disruptions, and interest rate hikes**. According to the report, Britain is expected to narrowly avoid a recession provided there are no further energy price shocks and the Bank of England does not tighten monetary policy too quickly**. "The outlook for the UK economy has become substantially gloomier than it was in the spring, but – while there are significant risks – the forecast suggests there should still be enough support to help the economy eke out growth over the rest of the year and avoid a recession," Hywel Ball, EY UK chair, said.

On Europe's mainland, **Russia's Gazprom resumed gas flows to Germany after maintenance on the Nord Stream pipeline.** Natural gas began flowing again through the key pipeline equivalent to levels before the gas was turned off to accommodate 10 days of work on the pipeline under the Baltic Sea. **Despite a rush to wean itself off Russian gas, Germany still depends on Russia for about a third of its gas supply.** Economy and Climate Minister Robert Habeck said Germany needs to be prepared for gas flows to be reduced in the future. "Putin aims to rattle us, drive up prices, divide society and weaken the support for Ukraine," he said.

In Asia, ADB, **the Asian Development Bank, cut its growth forecast for China due to concerns over the country's zero-Covid approach and strict lockdowns.** Gross Domestic Product is expected to be at 4% in 2022, down from an earlier estimate of 5%, ADB said in a report. China's continued "adherence to a zero-covid strategy in response to renewed outbreaks early in 2022 has triggered the reimposition of strict lockdowns," the bank said in its report. "With many economies in the region increasingly choosing to live with the virus and reopening, economic activity continued to expand in the first half of 2022--with the notable exception" of China, the bank added. **President Xi Jinping pledged last month to use "more forceful" measures to achieve the country's economic targets for the year.**

The Bank of Japan raised its inflation forecast this week, but retained its aggressive monetary easing policy, ensuring it will remain a global outlier as other top economies raise interest rates in the face of soaring global inflation. In its quarterly outlook, the BOJ bumped up its inflation forecast for fiscal 2022 from 1.9% to 2.3%, while revising down Japan's real gross domestic product growth forecast from 2.9% to 2.4%. **The decision by the central bank to keep its policy unchanged was widely expected among economists.** Kuroda reiterated that Japan needs aggressive monetary easing to support economic recovery while aiming to realize 2% inflation in a stable and sustainable manner.

Finally: **If there's one thing that's able to doom the future of an incumbent President - even more than scandal - it is Inflation. President Joe Biden's overall and economic approval numbers have reached the lowest levels of his presidency and fallen further than that of either of his two predecessors. The CNBC All-America Economic Survey reported Biden's economic approval dropped to just 30%. Even more, CNBC said the economic outlook of survey respondents was the worst in the 15-year history of the survey. Of the respondents, 52% believe the economy will get worse over the next year, while just 22% believe it will improve. The current readings exceed those at the height of the Great Financial Crisis of 2008 and the depths of the COVID pandemic. (Chart from CNBC.com)**



(**Sources:** All index- and returns-data from Yahoo Finance; news from Reuters, Barron's, Wall St. Journal, Bloomberg.com, ft.com, guggenheimpartners.com, zerohedge.com, ritholtz.com, markit.com, financialpost.com, Eurostat,0020Statistics Canada, Yahoo! Finance, stocksandnews.com, marketwatch.com, wantchinatimes.com, BBC, 361capital.com, pensionpartners.com, cnbc.com, FactSet.)

The SITREP | Glossary of Terms

Index, Exchange and Investment Definitions:

- **Barclays Aggregate Index** - An unmanaged index of fixed rate investment grade securities with at least one year to maturity combining the Barclays U.S. Treasury Bond Index, the Barclays U.S. Government-Related Bond Index, the Barclays U.S. Corporate Bond Index, and the Barclays U.S. Securitized Bond Index.
- **Barclays US Corporate Index** is a broad-based benchmark that measures the investment grade US dollar- denominated, fixed-rate, taxable corporate bond market. It includes USD denominated securities issued by US and non-US industrial, utility, and financial issuers that meet specified maturity, liquidity, and quality requirements.
- **Barclays Aggregate Bond Index** (formerly known as the Lehman Brothers Aggregate Bond Index), an unmanaged, market capitalization weighted index of government and corporate bonds, mortgage-backed securities, and other asset-backed securities, with interest reinvested. This index commonly serves as a proxy for the U.S. bond market.
- **The Bloomberg Commodity Index** is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
- **CBOE Volatility Index** shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options. This volatility is meant to be forward looking and is calculated from both calls and puts. The VIX is a widely used measure of market risk and is often referred to as the "investor fear gauge."
- **The DJ Equity All REIT Total Return Index** measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
- **The S&P 500** is a market-cap weighted index composed of the common stocks of 500 leading companies in leading industries of the U.S. economy.
- **The Dow Jones Industrial Average** is a price-weighted index of 30 actively traded blue-chip stocks.
- **The NASDAQ Composite Index** is an unmanaged, market-weighted index of all over-the-counter common stocks traded on the National Association of Securities Dealers Automated Quotation System.
- **The Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe: market-cap weighted index composed of 2,000 U.S. small-cap common stocks.
- **The CAC-40 Index** is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse.
- **The ISEQ Overall Index** is a capitalization-weighted index of all official list equities in the Irish Stock Exchange, excluding U.K.-registered companies.
- **The FTSE MIB** (Milano Italia Borsa) is the benchmark stock market index for the Borsa Italiana, the Italian national stock exchange.
- **The IBEX 35** is the benchmark stock market index of the Bolsa de Madrid, Spain's principal stock exchange.
- **The DAX 30** is a Blue-Chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.
- **The FTSE 100 Index** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.
- **The STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index.
- **The RTS Index** (abbreviated: RTSI, Russian: Индекс РТС) is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange.

- **The SSE Composite Index** is an index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.
- **The Shanghai Composite Index** tracks the biggest and most important public companies in China.
- **The Hang Seng Index** is a free float-adjusted market capitalization-weighted stock market index that is the main indicator of the overall market performance in Hong Kong.
- **The IDX Composite** or Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange (IDX).
- **The Korea Composite Stock Price Index** or KOSPI is the major stock market index of South Korea, representing all common stocks traded on the Korea Exchange.
- **The Asia Dow** measures the Asia equity markets by tracking 30 leading blue-chip companies in the region.
- **The S&P/ASX 200 Index** is a market-capitalization weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's.
- **Nikkei 225 (**Ticker: ^N225) is a stock market index for the Tokyo Stock Exchange (TSE).
- **The Nikkei Average** is the most watched index of Asian stocks.
- **The BSE SENSEX** (Bombay Stock Exchange Sensitive Index), also-called the BSE 30 (BOMBAY STOCK EXCHANGE) or simply the SENSEX, is a free-float market capitalization-weighted stock market index of 30 well-established and financially sound companies listed on the Bombay Stock Exchange (BSE).
- **Karachi Stock Exchange 100 Index** (KSE-100 Index) is a stock index acting as a benchmark to compare prices on the Karachi Stock Exchange (KSE) over a period.
- **The Dow Jones Americas Index** measures the Latin American equity markets by tracking 30 leading blue-chip companies in the region.
- **The Mexican IPC Index** (Indices de Precios y Cotizaciones) is a major stock market index which tracks the performance of leading companies listed on the Mexican Stock Exchange.
- **The Bovespa Index** is a gross total return index weighted by traded volume & is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange.
- **The S&P/TSX Composite Index** is an index of the stock (equity) prices of the largest companies on the Toronto Stock Exchange (TSX) as measured by market capitalization.
- **The Global Dow** is an equally weighted index of 150 widely traded blue-chip common stocks worldwide.
- **The MSCI World Index** is a free-float weighted equity index that includes developed world markets and does not include emerging markets.
- **The MSCI EAFE Index** is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.
- **The MSCI Emerging Markets Index** is a float-adjusted market capitalization index consisting of indices in more than 25 emerging economies.
- **The US Dollar Index** measures the performance of the U.S. dollar against a basket of six currencies.
- **Corporate BBB 1-3-year Index** - as represented by the BBB rated component of the BofA Merrill Lynch 1-3 Year U.S. Corporate Index, comprised of U.S. dollar-denominated investment-grade corporate debt securities publicly issued in the U.S. domestic market with between one and three years remaining to final maturity.
- **High Yield Index** - as represented by the Bank of America Merrill Lynch U.S. High Yield Master II Constrained Index, a market value-weighted index of all domestic and Yankee high-yield bonds, including deferred-interest bonds and payment–in-kind securities.
- **10 -Year US Treasury Index** - This index represents a theoretical rolling 10-year U.S. Treasury note, renewed semiannually to a new higher coupon based on the indicated rise in rates.

Index Disclosures:

"An index is a composite of securities that provides a performance benchmark. Indexes are unmanaged, do not incur management fees/costs/expenses, and cannot be invested-in directly. Past performance is not a guarantee of future results."

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