Summary

Economic data for the week included housing prices that continued a decline from peak levels, as well as a drop in pending home sales. Some regional PMI data improved, while jobless claims remained at a steady low level.

Global equities were flat to down last week to close out 2022. Fixed income also fell back as interest rates ticked higher. Commodities gained ground last week, led by crude oil prices.

Economic Notes

(0/+) The December **Chicago PMI** survey (technically known as the ISM Chicago Business Survey) rose 7.7 points to 44.9, above the consensus estimate of 40. While this broke a streak of declining reports, the measure has remained in contraction since Sept., with the Nov. reading being the lowest since the financial crisis. Under the hood, new orders and order backlogs rose, while employment and inventories fell, still showing some underlying weakness.

(-) The **S&P/Case-Shiller home price index** for October fell back by -0.8%, with every city showing a decline for the month. Year-over-year, the 20-city index still showed a gain of 8.6%, which has decelerated by nearly -2% from the prior month's pace, and down -5% from the June peak 12-month rate. Year-over-year gains by city were dominated by the Southeast, with Miami and Tampa each up over 20%, followed by Charlotte and Atlanta. The weakest cities were San Francisco and Seattle, with minimal gains on the year, and down -10% from peak levels mid-year.

(0) The **FHFA house price index** was unchanged for October, a bit down from the prior month, and continuing a trend of flattish results. By census division, a gain in New England was offset by a decline in the Pacific states. On a trailing 12-month basis, national home prices remained up 9.8% (down from 11% for the Sept. month-end). This survey features a broader swath of geography compared to the more urban-focused S&P/Case-Shiller, and captures a high percentage of housing transactions through repeat sales. Per the FHFA, higher mortgage rates were again noted as a key factor in the downward pull in home prices as of late, with a mention that this was the first sub-10% annual gain in over two years. (Historically, home prices running that hot has been abnormal, so the eventual decline has been anticipated to some extent.)

(-) **Pending home sales** for November fell by -4.0% to the second-lowest reading in 20 years, per the NAR. Data fell in all four national regions for the month, with the sharpest drop in the Northeast. The national year-over-year figure fell by -38%. Rising interest rates were naturally blamed as the cause of the drop; however, rates falling back a bit in December raised hopes for a potential rebound in activity in coming months. Pending sales are considered a leading indicator, in that they lead 'actual' existing home sales reports by a month or two. The housing sector is a continued area of heightened focus moving into 2023. While housing transactions are not a huge component of U.S. economic growth directly, weaker conditions can begin to take a toll on a wider level, through homebuilding, of course, as well as related industries such as building materials, furniture/home furnishings, appliances, carpeting, landscape services, etc.

(0/-) **Initial jobless claims** for the Dec. 24 ending week rose by 9k to 225k, above the 220k forecast. Continuing claims for the Dec. 17 week rose 41k to 1.710 mil, above the 1.686 mil. consensus expectation. The largest initial claim increases were in MO, KY, and NY, while CA, GA, and TX saw declines. In reviewing the insured unemployment rate the DOL publishes, the 1.2% reading from last week was well within the 1.0-1.3% range from over the past year. After spiking at 15.8% in May 2020, the insured proportion has been on a steady downward slide since with little sign of reversion back upward. Since the series in 1970, the insured rate has averaged 2.8%, hiding some extreme values along the way, but rarely falling and staying below 1.5%—even in the best of times.

Market Notes

Period ending 12/30/2022	**1 Week %**	**YTD %**
DJIA	-0.17	-6.86
S&P 500	-0.11	-18.11
NASDAQ	-0.28	-32.54
Russell 2000	0.08	-20.44
MSCI-EAFE	0.06	-14.45
MSCI-EM	0.30	-20.09
Bloomberg U.S. Aggregate	-0.65	-13.01

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2021	0.06	0.73	1.26	1.52	1.90
12/23/2022	4.34	4.31	3.86	3.75	3.82
12/30/2022	4.42	4.41	3.99	3.88	3.97

U.S. stocks ended flattish on net, in a typical low-volume holiday trading week, despite a few days of heightened volatility. Sector results were mixed, with gains in financials and energy; decliners were led by materials and consumer staples. Real estate also fell back with higher interest rates. For 2022, in keeping with corporate earnings results, the only positive returns originated from the energy sector (up over 60%). As expected in a negative year, defensive groups consumer staples, health care, and utilities outperformed with flattish results, while 'value' generally outperformed 'growth' by a substantial degree, with minimal losses for the former and a substantial bear market in the latter. Real estate also declined beyond the S&P 500, punished by higher interest rates.

Foreign stocks were mixed during the last week of the year, with developed markets down and emerging markets earnings positive returns, led by gains in China, as investors continued to optimistically view the recent easing of Covid restrictions and cheer the recent removal of quarantine requirements. Economic data there has also started to improve. While it was not largely publicized, foreign stocks outperformed U.S. for the quarter by about 10%, led by a recovery in Europe. While economic growth and inflation conditions certainly remain more challenged abroad, sentiment may have bottomed, with conditions moving from the 'bad' to 'less bad'—historically, this has been a sweet spot for positive returns. For all of 2022, developed market foreign stocks fared slightly better than U.S. equities (even better in local terms, subtracting the negative impact of the strong U.S. dollar). Many might be surprised that returns in the U.K. led all other regions, despite the political and economic volatility there this year.

Bonds fell back last week as interest rates rose to end the year, and the 10-year treasury reaching its highest level in over a month as economic data and hopes for China have kept growth sentiment optimistic. U.S. treasuries lost slightly less ground, although all groups fell back. Despite a weaker dollar, foreign bonds declined to a lesser degree on the week. While a cruel reminder to investors, 2022 was a terrible year for traditional bonds, with the Bloomberg U.S. Aggregate Index down -13% (the worst calendar year in its nearly 50-year history). Areas such as floating rate bank loans fared better, with minimal declines. On the bright side, U.S. bonds fared better than foreign debt, which suffered from rising interest rates and a strong dollar (up 7% for the year), acting as a headwind on foreign returns, although it fell back by -8% in Q4 from even higher levels.

Commodities fared positively on the week, with minor gains in all segments. Crude oil rose almost a percent last week to $80/barrel; however, natural gas prices corrected by -10% on the week, as weather forecasts turned warmer. The winning streak for commodities continued in 2022, with gains of over 20% for the S&P GSCI Index. This was led by price gains in the energy sector (crude oil up 7%, but more so by distillates and natural gas), which offset price declines in more economically-sensitive industrial metals like copper.

Have a good week and Happy New Year.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Deutsche Bank, FactSet, FHFA, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, National Association of Realtors (NAR), Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.