



**THE WEEK IN REVIEW**

U.S. equity indexes gave up last week's gains as investors digested a hotter-than-expected inflation report. Investors' expectations for Fed rate hikes shot higher as the Fed's battle to reduce inflation continues to appear tougher than previously anticipated. Fed funds futures indicate investors expect the Fed's policy rate will be around 4.2% in 12 months, 0.4% higher than last Friday's forecast of 3.8% and nearly 2% higher than the current rate. The three major domestic stock indexes all retreated over 4%, more than eliminating last week's gains. The U.S. Treasury yield curve inversion, which is a commonly watched recession indicator, worsened as short-term rates rose more than longer term rates. The spread between the 10-year and 2-year Treasury yields finished the week in negative territory at its deepest point since 2000.

The Consumer Price Index (CPI) showed inflation slowed less than expected in August. Lower gasoline prices helped CPI decline to 8.3% from 8.5% in July, but CPI was higher than the median economists' estimate of 8.1%. Core CPI, which excludes food and energy, rose to 6.3% from 5.9% and exceeded the economists' estimate for 6.1%. Shelter inflation, which accounts for around a third of the index, was a notable contributor to stronger Core CPI, rising to its highest rate since 1984.

The University of Michigan Consumer Sentiment index increased to a five-month high of 59.50 this month from 58.20 in August. However, the reading fell short of economists' estimate for an increase to 60. Lower gasoline prices helped reduce consumers' inflation expectations. Looking ahead, consumers expect inflation to slow to 4.6% twelve months from now, down from their 4.8% expectation in August. Consumers' long-term inflation expectations also declined to 2.8%, the lowest level since July 2021.

U.S. retail sales rebounded 0.3% in August after falling 0.4% in July and defied economists' projection for a 0.1% decline. The unexpected rise in retail sales showed consumer demand remains healthy despite high inflation. Lower gasoline prices allowed consumers to allocate spending to other areas.

The NFIB Small Business Optimism Index rose for a second consecutive month to 91.8 after reaching a multi-year low in June. The index saw a large increase in the number of business owners expecting better business conditions during the next six months. However, inflation remains a challenge with 29% of business owners reporting inflation as their most important problem in operating their business.

ECONOMIC INDICATOR	LATEST	3MO PRIOR	CHANGE
Core Consumer Price Index (Y/Y)	6.30%	6.00%	▲
Core Producer Price Index (Y/Y)	7.30%	8.60%	▼
Retail Sales (M/M)	0.30%	0.40%	▼
U. of Mich. Consumer Sentiment	59.50	50.00	▲
NFIB Small Business Optimism	91.80	93.10	▼

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	30822.42	-4.13%	-15.18%	-11.31%
NASDAQ	11448.40	-5.48%	-26.82%	-24.59%
S&P 500	3873.33	-4.77%	-18.73%	-13.42%
MSCI EAFE	1806.03	-1.78%	-22.69%	-23.67%
Bbg Barclays Aggregate US	2065.01	-0.86%	-12.32%	-13.13%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	3.11%	2.59%	0.03%
10-Year Treasury	3.45%	2.80%	1.34%

REPORTS DUE NEXT WEEK	LATEST
Existing Home Sales (Millions Annualized)	4.81
Housing Starts (Millions Annualized)	1.45
Building Permits (Millions Annualized)	1.69
S&P Global U.S. Manufacturing PMI	51.50
S&P Global U.S. Services PMI	43.70

Price returns as of the last available closing data. Source data: Bloomberg and Morningstar are believed to be correct but not verified.