SIFMA Insights

August Market Metrics and Trends

A Look at Monthly Volatility and Equity and Listed Options Volumes

September 2022

Monthly Metrics

- Volatility (VIX): Monthly average 22.17; -10.9% M/M, +26.8% Y/Y
- S&P 500 (Price): Monthly average 4,158.56; +6.3% M/M, -6.6% Y/Y
- Performance (month/year): best = energy +2.2%/energy 44.7%; worst = tech -6.3%/communications -31.0%
- Equity ADV (billion shares): Monthly average 10.6; -1.5% M/M, +17.5% Y/Y
- Options ADV (million contracts): Monthly average 38.9; +7.3% M/M, +8.3% Y/Y

Monthly Highlight

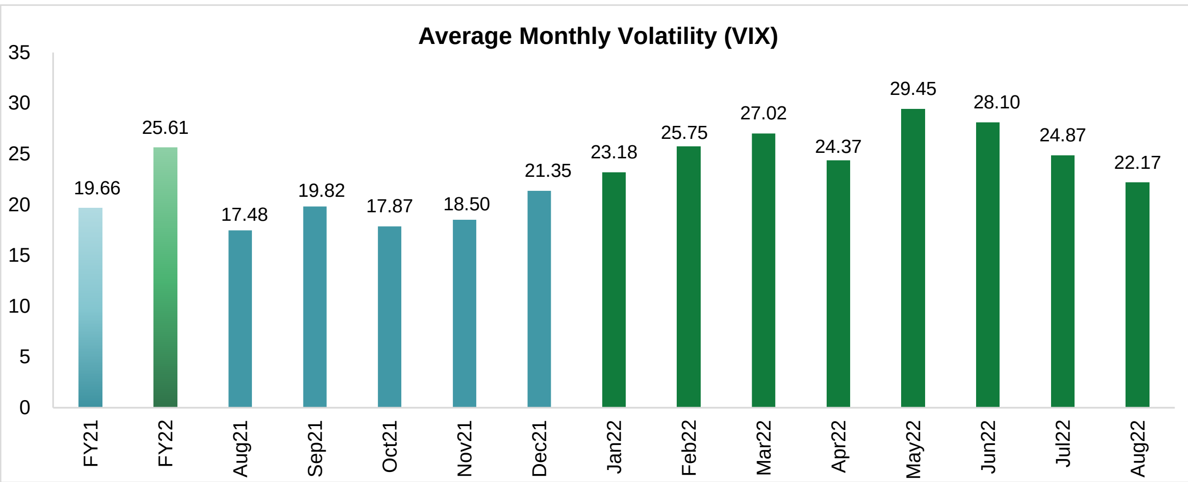
- Market monitor: August was the second positive month in a row (M/M change) but fourth negative month in a row for the year (Y/Y change)
- Inflation monitor: Return to normal(~2%) = CPI 6.5 pps, Core CPI 3.9 pps, PCE 4.3 pps; food, shelter, rents, and wages reached new peaks in July (2Q22 for wages)
- Fed monitor: Fed Funds Rate increased from 0-0.25 bps to 2.25-2.50 bps in only four months, took three years the last time the Fed hiked rates; next FOMC meeting Sept. 20-21
- Earnings monitor: 62.7% of S&P 500 companies reported a positive surprise on the top line (revenue); 48.4% issued positive full-year guidance

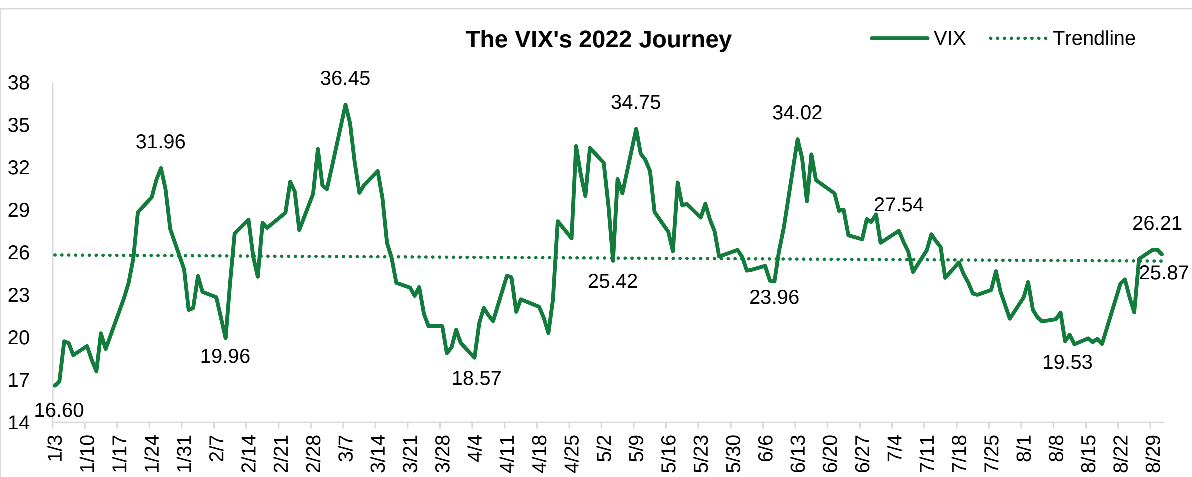
Monthly Market Metrics

In this section, we highlight the monthly market trends for volatility, price, and volumes.

Volatility (VIX)

- Monthly average 22.17
  - -10.9% M/M
  - +26.8% Y/Y
  - +33.6% from the start of the year
- Monthly peak on the 29th at 26.21, troughed on the 12th at 19.53

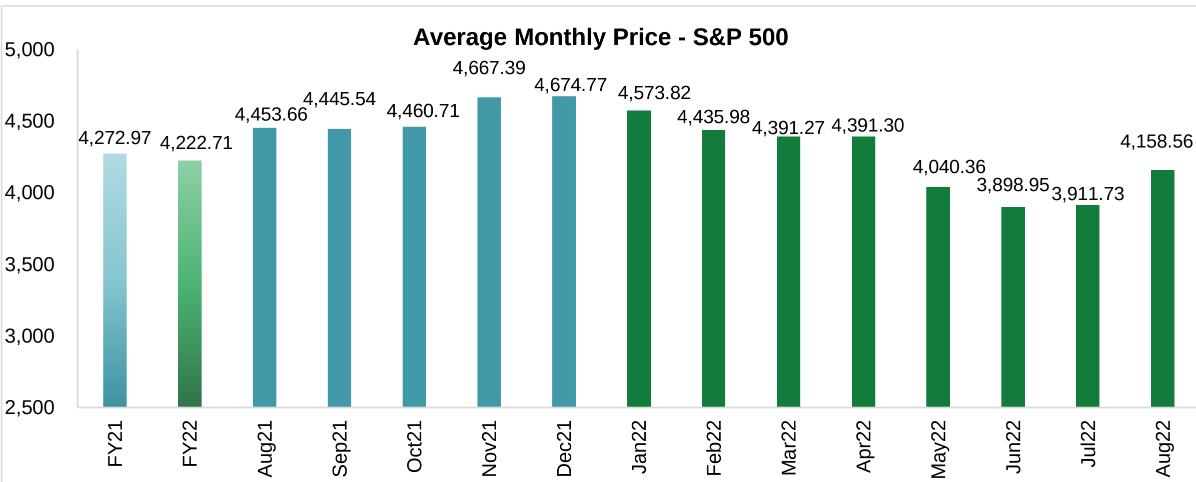


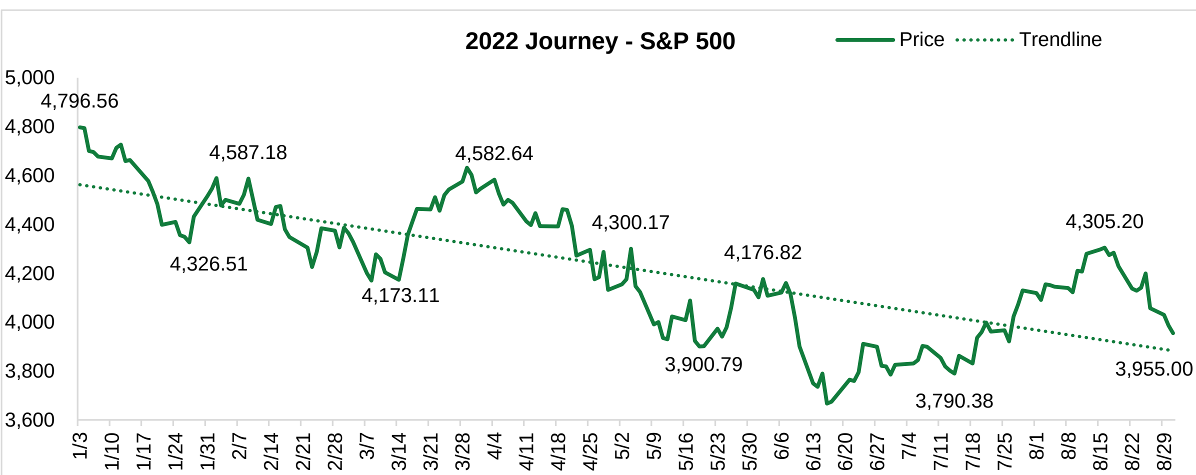


Source: Bloomberg, SIFMA estimates

S&P 500 Index: Price

- Monthly average 4,158.56
  - +6.3 M/M
  - -6.6% Y/Y
  - -13.3% from the start of the year
- Monthly peak on the 16th at 4,305.20, troughed on the 31st at 3,955.00



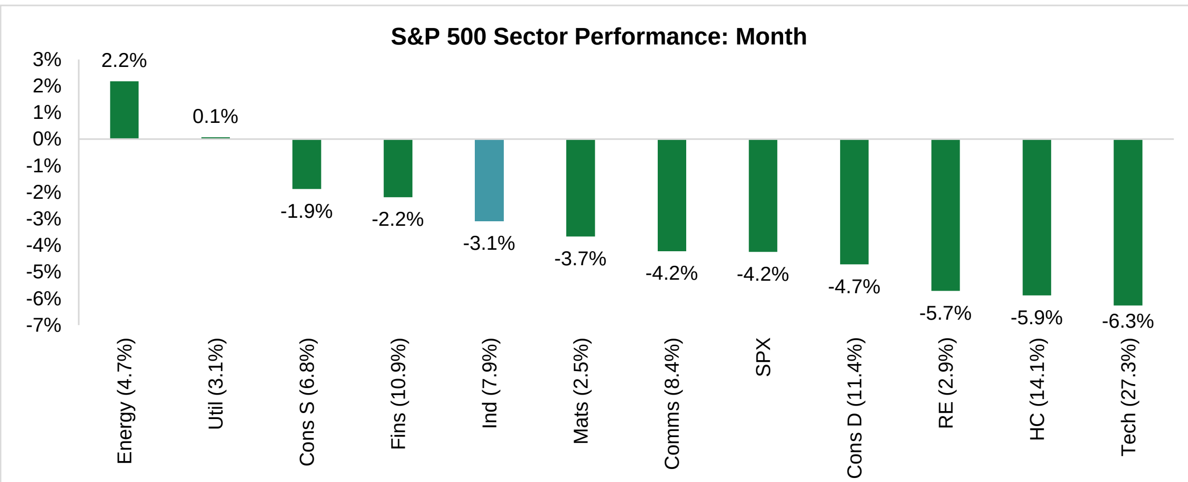


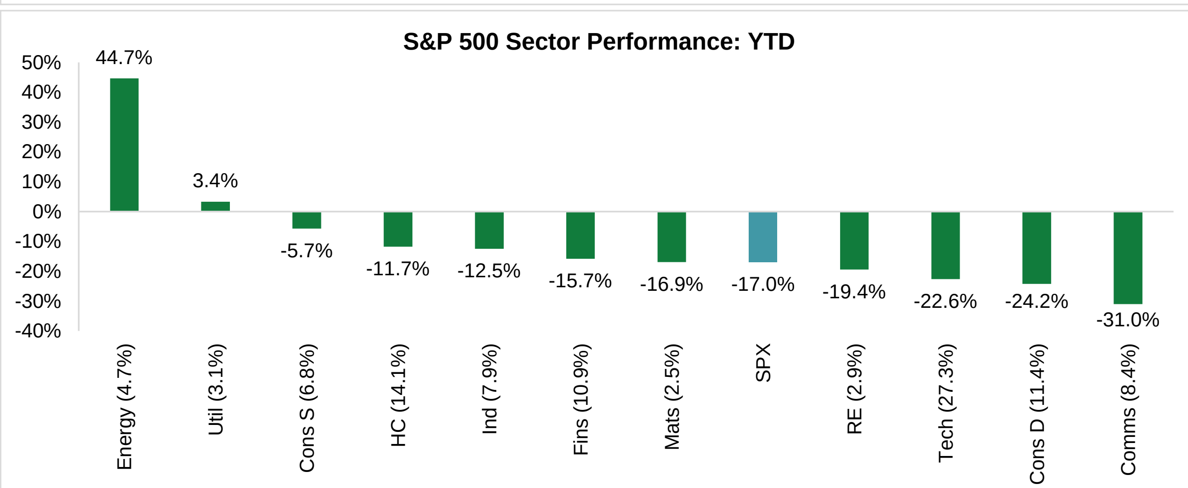
Source: Bloomberg, SIFMA estimates

S&P 500 Index: Sector Breakout

Looking at market performance by sector, we highlight the following:

- Best performing sectors
  - Month = energy at +2.2% and utilities at +0.1%
  - YTD = energy at 44.7% and utilities at +3.4% (the only two positive sectors for the year)
- Worst performing sectors
  - Month = technology at -6.3% and healthcare at -5.9%
  - YTD = communications at -31.0% and consumer discretionary at -24.2%

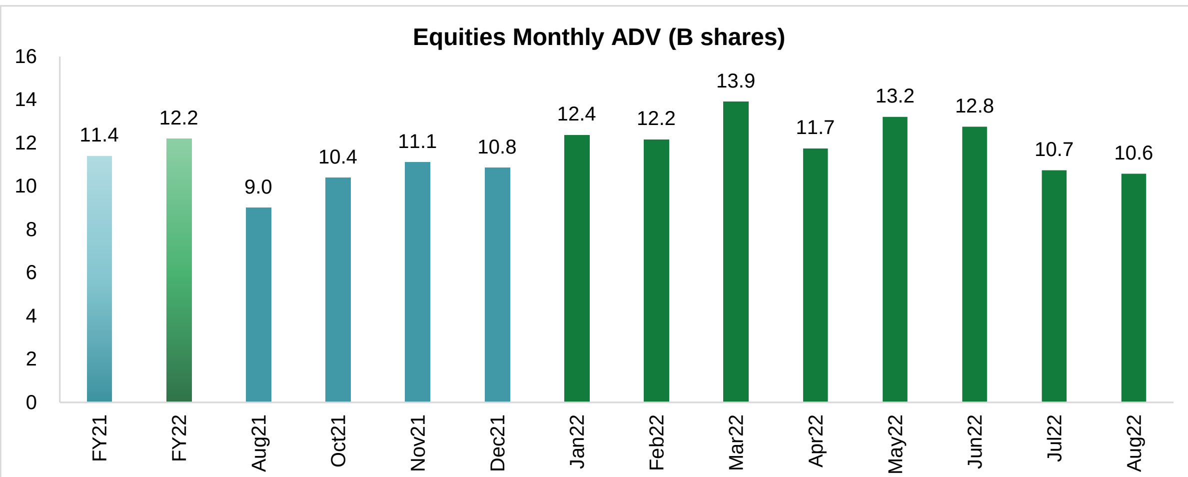


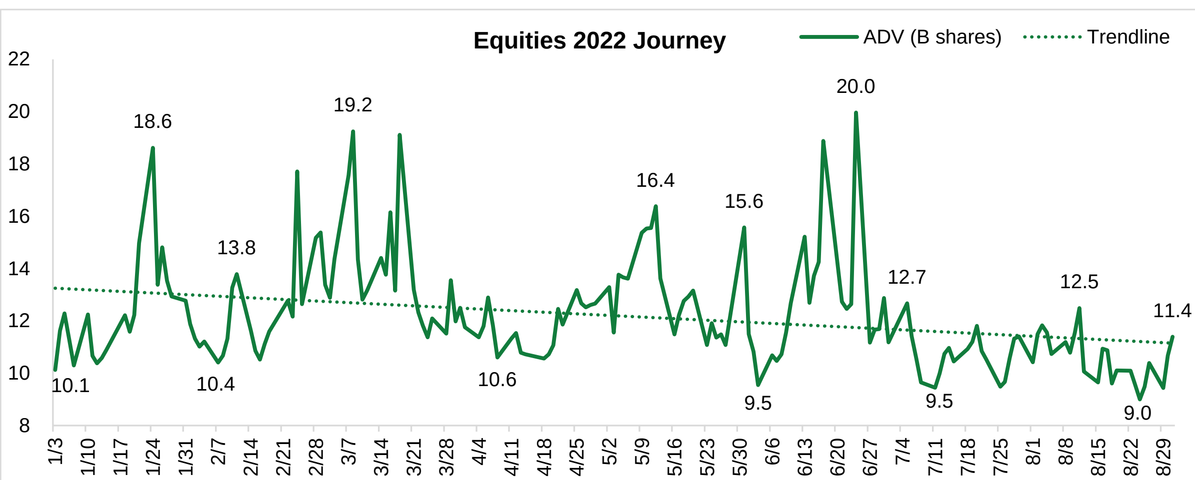


Source: Bloomberg, SIFMA estimates
Note: Parenthesis indicate sector weight in the index. Cons S = consumer staples, HC = healthcare, Mats = materials, RE = real estate, Ind = industrials, Fins = financials, Tech = technology, Cons D = consumer discretionary, Comms = telecommunications, Util = utilities

Equity Volumes (ADV)

- Monthly average 10.6 billion shares
  - -1.5% M/M
  - +17.5% Y/Y
  - +4.5% from the start of the year
- Monthly peak on the 11th at 12.5 billion shares, troughed on the 24th at 9.0 billion shares
- Monthly average off exchange trading 45.1%; +1.1 pps M/M, +2.2 pps Y/Y

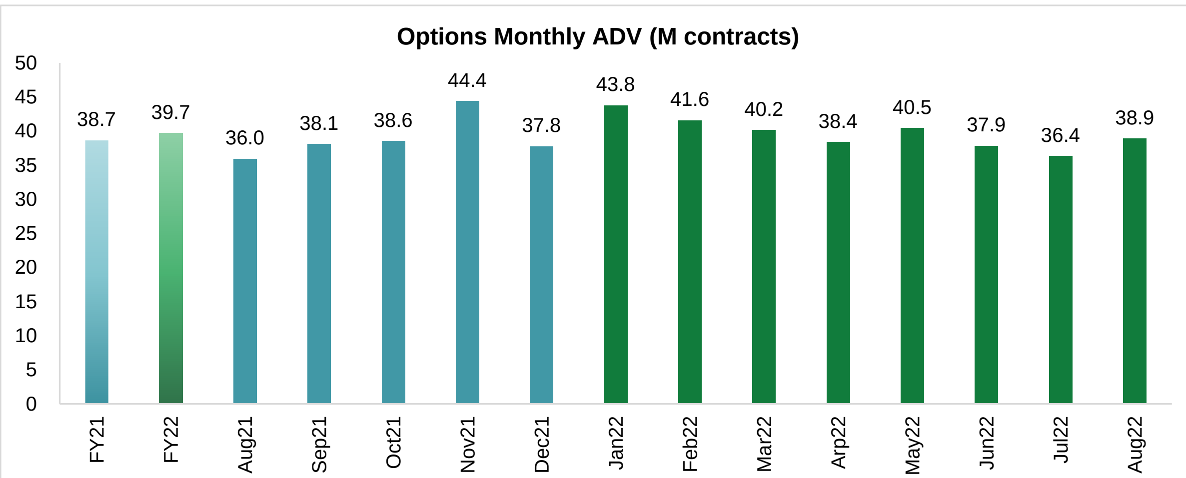


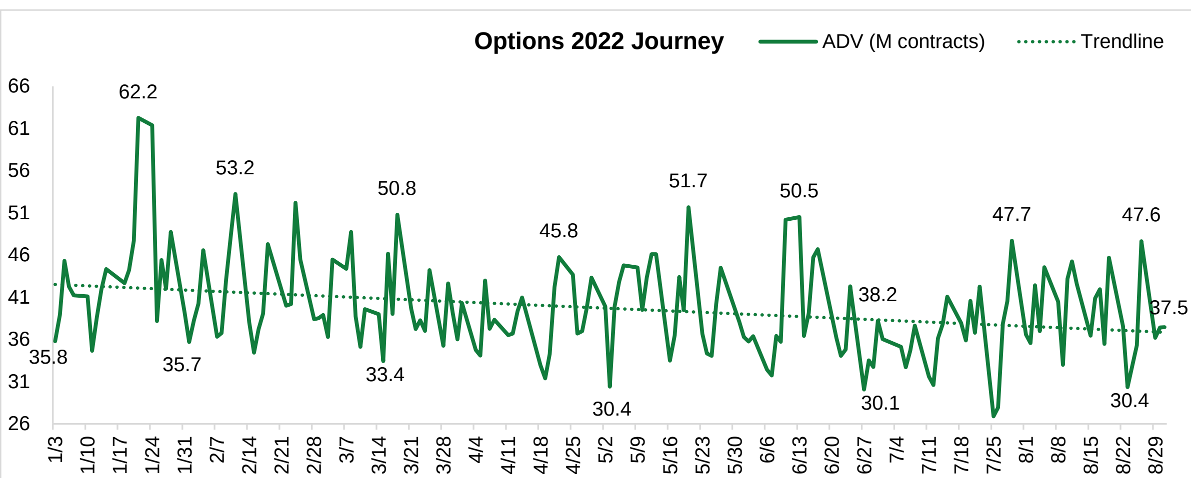


Source: Cboe Global Markets, SIFMA estimates

Multi-Listed Options Volumes (ADV)

- Monthly average 38.9 million contracts
  - +7.0% M/M
  - +8.3% Y/Y
  - +8.8% from the start of the year
- Monthly peak on the 26th at 47.6 million contracts, troughed on the 23rd at 30.4 million contracts
- Monthly equity options 36.2 million contracts (+7.3% M/M, +6.0% Y/Y), index options 2.7 million contracts (+3.5% M/M, +51.4% Y/Y)





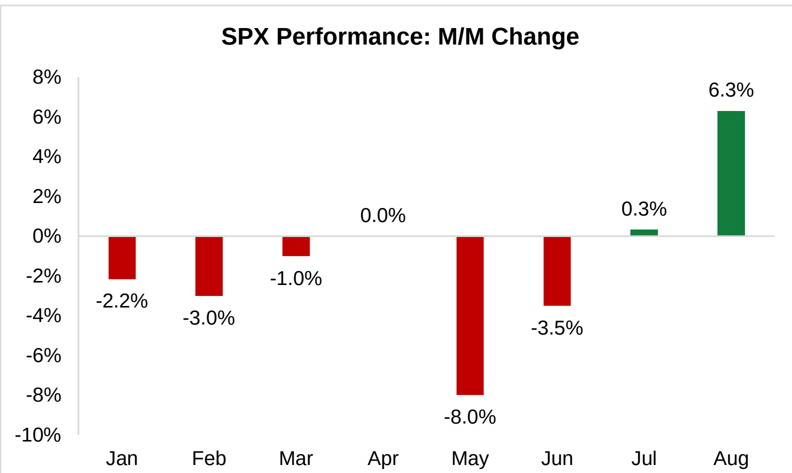
Source: Cboe Global Markets, SIFMA estimates

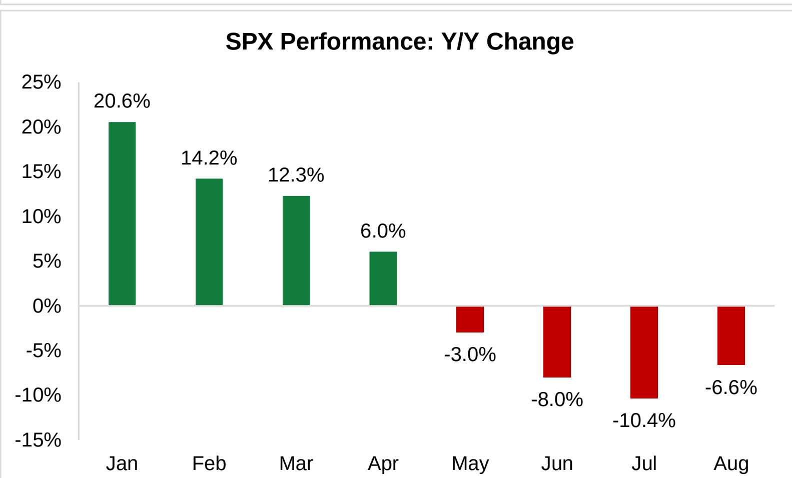
Monthly Highlight

In this section we drill down into an interesting trend that market participants are following.

Market Monitor

As we continue to move through the year, we thought it would be interesting to monitor market performance trends and the factors influencing performance. The S&P 500 index (SPX) posted another positive month in August on a M/M change basis, +6.3% M/M. This is now two positive months in a row, after five negative M/M changes and one flat month. However, on a Y/Y basis, august added another negative month to the tally – now four months in a row of negative Y/Y performance.





Source: Bloomberg, SIFMA estimates

Inflation Monitor

The Fed's decision on interest rate increases largely involves monitoring inflation, which has many moving pieces. We highlight the following on inflation trends:

- CPI +8.5% Y/Y: -0.5 pps from the peak, needs to decline 6.5 pps to return to normal (~2%)
- Core CPI +5.9% Y/Y, excludes food and energy to remove volatility in the headline number: -0.5 pps from the peak, needs to decline 3.9 pps to return to normal
    - However, people have to buy food, which is at a new peak, +10.9% Y/Y
    - Watched items – skyrocketed during the COVID era or are important to consumers – down from peaks (used cars/trucks -38.7 pps, airfares -10.1 pps, gasoline -15.9 pps) but remain elevated
    - Shelter and rent reached new peaks in July; +5.7%, +5.8% Y/Y
    - Prices at the pump (regular grade gas) -23.4% from the peak but still +22.0% Y/Y
    - Wages set a new peak in 2Q22, +5.0% Y/Y
    - Rents and mortgages also at new peaks, +14.1% and +50.5% Y/Y
- PPI, this measure is important as producers typically pass along higher prices to consumers: down from the peak (-5.5 pps for all commodities, -2.0 pps for final demand) but remain elevated (final demand averaged 1.7% in 2019, currently +8.0 pps to historical)
- **PCE,** this is the measure the Fed uses to set monetary policy: -0.5 pps from the peak but **needs to decline 4.3 pps to return to normal**
- Oil prices down from the peak (-23.52 pps Brent, -26.5 pps WTI) but remain high (Y/Y +48.4 pps Brent, +48.9 pps WTI)

Inflation Monitor

	Jul22	Jun22	Peak	From Peak (pps)	Back to 2% (pps)
CPI (Y/Y % change)	8.5	9.0	9.0	(0.5)	6.5
Core CPI	5.9	5.9	6.4	(0.5)	3.9
Food	10.9	10.4	10.4	**new peak**	
Energy	32.9	41.5	41.5	(8.6)	
Used Cars/Trucks	6.6	7.1	45.3	(38.7)	
Airfares	27.7	34.1	37.8	(10.1)	
Gasoline (all types)	44.0	59.9	59.9	(15.9)	
Shelter	5.7	5.6	5.6	**new peak**	
Rent of Shelter	5.8	5.7	5.7	**new peak**	
PPI (Y/Y % change)					
All Commodities	17.2	22.5	22.7	(5.5)	
Final Demand	9.7	11.2	11.7	(2.0)	
Lumber	(3.3)	(27.1)	117.9	(121.2)	
PCE (Y/Y % change)	6.3	6.8	6.8	(0.5)	4.3

Gas Prices at the Pump				
	Current	Y/Y (%)	Peak	From Peak (pps)
Regular	$ 3.84	22.0	$ 5.02	(23.4)
Mid-Grade	$ 4.28	22.0		
Premium	$ 4.58	21.4		
Diesel	$ 5.07	54.8	$ 5.82	(12.8)
Wages				
(Y/Y % change)	2Q22	1Q22	Peak	From Peak (pps)
National Avg.	5.0	4.5	5.0	**new peak**
Rents & Mortgages				
	Current	Y/Y (%)	Peak	From Peak (pps)
Rent	$2,016	14.1	$ 2,016	**new peak**
Mortgage	$2,316	50.5	$ 2,316	**new peak**
Oil Prices				
	Current	Y/Y (%)	Peak	From Peak (pps)
Brent	$97.92	48.4	$127.98	23.5
WTI	$90.94	48.9	$123.70	26.5

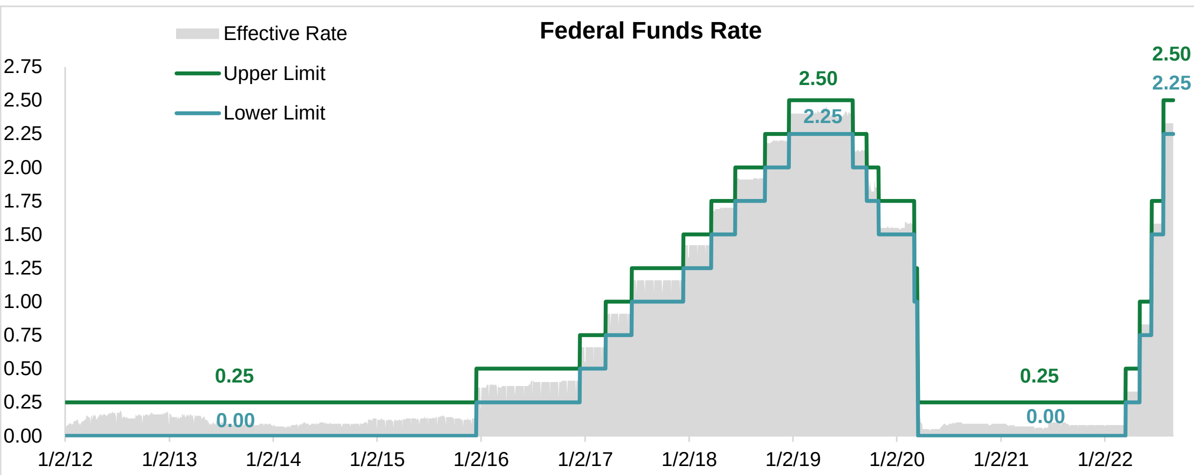
Source: Bloomberg, BLS, FRED, Redfin, SIFMA estimates

Note: Gas prices at the pump are national averages. Wages are from the employment cost index which tracks wages and benefits paid out by US employers, total pay for civilian workers. Rents and mortgages are national averages using a 5% down payment

Fed Monitor

As noted, inflation data – and the path to the more normalized 2% level – will drive interest rate decisions. The outcome will determine the timing and any impact on equity valuations. Bond yields are used as the risk-free rate when calculating the cost of capital. When bond yields go up, the cost of capital increases and future cash flows are discounted at a higher rate. This in turn compresses stock valuations, especially for stocks in high growth sectors such as technology (currently 27.3% of the S&P 500 index). As such, markets are following rate hikes closely.

Looking at the Fed Funds Rate (FFR) as the proxy[1], the FFR held at zero (the rate is actually a range, 0 to 0.25 bps) from December 2008 until the Fed began raising it in December 2015. At that time, it stepped the rate up in 25 bps increments. It took three years for the rate to peak at 2.25-2.50 bps in December 2018. The Fed took the rate to zero during the height of the COVID-driven market turmoil, March 2020. The rate remained at zero until the Fed began hiking this year. In 2022, the rate has increased from the 0-0.25 bps range to the last seen peak range of 2.25-2.50 bps in only four months. The rate of the increase is certainly atypical.



Source: Bloomberg, SIFMA estimates

Additionally, the Fed has not raised the rate by 75 bps, as seen in June 2022, since 1994. And there have not been back-to-back 75 bps hikes since the early 1980s. The list of 2022 rate hikes and the remaining FOMC meetings for market participants to monitor include:

- March +0.25 bps
- June +0.75 bps
- July +0.75 bps
- September 20-21
- November 1-2
- December 13-14

[1] Federal funds market consists of domestic unsecured borrowings in USD by depository institutions from other depository institutions and certain other entities (government-sponsored enterprises). Effective federal funds rate (EFFR) = volume-weighted median of overnight federal funds transactions

Earnings Monitor

Finally, we look at earnings. At the end of 2Q22 earnings season, 62.7% of S&P 500 companies reported a positive surprise on the top line (sales/revenue) and 75.7% on the bottom line (earnings). In our last Monthly Metrics, 56.6% of companies had reported when we analyzed this data. From that time to completion of earnings season, results improved by 2.2 pps on the top line and 2.0 pps on the bottom line. Five sectors saw worsening metrics on the top line and four sectors on the bottom line.

	Earnings Season Ended						Earnings Season 56.6% Complete			
	Top Line (Sales/Revenue)			Bottom Line (Earnings)			Top	% Change	Bottom	% Change
Sector	Positive	Inline	Negative	Positive	Inline	Negative	Positive	(pps)	Positive	(pps)
Real Estate	77.4%	12.9%	9.7%	83.9%	9.7%	6.5%	76.5%	0.9	82.4%	1.5
Technology	60.0%	24.0%	16.0%	82.7%	4.0%	13.3%	73.3%	(13.3)	80.0%	2.7
Energy	78.3%	4.3%	17.4%	82.6%	4.3%	13.0%	63.0%	15.2	76.1%	6.5
Industrials	63.2%	11.8%	25.0%	79.4%	7.4%	13.2%	53.8%	9.4	69.2%	10.2
Health Care	64.5%	8.1%	27.4%	77.4%	3.2%	19.4%	80.0%	(15.5)	80.0%	(2.6)
SPX	62.7%	13.0%	24.3%	75.7%	5.2%	19.2%	60.5%	2.2	73.7%	2.0
Consumer Staples	67.7%	9.7%	22.6%	74.2%	6.5%	19.4%	46.0%	21.7	70.0%	4.2
Financials	50.0%	13.3%	36.7%	71.7%	1.7%	26.7%	78.9%	(28.9)	84.2%	(12.5)
Materials	71.4%	7.1%	21.4%	71.4%	3.6%	25.0%	68.8%	2.7	78.1%	(6.7)
Consumer Discretionary	47.2%	15.1%	37.7%	69.8%	0.0%	30.2%	48.4%	(1.2)	67.7%	2.1
Utilities	89.7%	6.9%	3.4%	65.5%	20.7%	13.8%	41.7%	48.0	66.7%	(1.1)
Communications	48.0%	16.0%	36.0%	64.0%	4.0%	32.0%	80.0%	(32.0)	60.0%	4.0

Source: Bloomberg, SIFMA estimates

Looking forward, we note that S&P 500 companies were less negative in their outlooks than they have been historically. According to FactSet, of the 72 companies issuing 3Q22 earnings guidance, 41.7% issued positive guidance and 58.3% negative guidance. This is below the 5-year average of 60% and the 10-year average of 67% for negative quarterly guidance. Of the 246 companies issuing earnings guidance for their current fiscal year (FY22/FY23), 48.4% issued positive guidance and 51.6% negative guidance. The best sector was real estate (77.3% positive) , and the worst sector was communications (0% positive).

Full-Year Earnings Guidance

Sector	Positive	% Total	Negative	% Total
Real Estate	17	77.3%	5	22.7%
Materials	9	69.2%	4	30.8%
Technology	20	58.8%	14	41.2%
Energy	1	50.0%	1	50.0%
Industrials	20	48.8%	21	51.2%
SPX	119	48.4%	127	51.6%
Health Care	23	47.9%	25	52.1%
Consumer Staples	10	45.5%	12	54.5%
Consumer Discretionary	11	40.7%	16	59.3%
Financials	2	28.6%	5	71.4%
Utilities	6	22.2%	21	77.8%
Communications	0	0.0%	3	100.0%

Source: FactSet, SIFMA estimates

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