Weekly **Market Commentary**

THE WEEK IN REVIEW: July 30 – Aug. 6

July jobs come in super-hot

We had a really strong July in the markets overall, even though the economy contracted for a second straight quarter, signaling it was in a recession. The second quarter of 2022 was an ugly one, replete with very high gas prices and 40-year-high inflation rates. There have been arguments about whether or not we are in a recession; some claim we've met the definition and the economy is in bad shape, while others debate whether the actual definition still applies. The latter group pointed to the low unemployment and the strong month-over-month job-creation rate this year.

The market took the Federal Reserve's latest 75-basis-point (.75%) hike in stride and interpreted Fed Chair Jerome Powell's comments as the Fed could potentially slow or pause its rate increases in upcoming meetings due to the deteriorating economic picture. While that view bolstered markets, it may be premature. The consumer appears to be weakening, and many people are running up credit to keep up with inflation. The housing market is cooling as 30-year mortgage rates remain over 5%.

Meanwhile, the latest Job Openings & Labor Turnover Survey (JOLTS) number dropped from 11.3 million to 10.7 million. Openings are the first to go because there are no people to lay off. Openings are just positions on paper, but they often point to firms' optimism (or lack thereof) about future labor needs. Company earnings have been a mixed bag, with some companies issuing dire warnings – a sign optimism is in short supply for firms.

Despite all this, there were some who said we cannot be in a recession because we still have low unemployment and robust job growth. But the jobs numbers will likely be the last economic indicator to turn for the worse. Analysts expected the July nonfarm payrolls report to show an increase of 258,000 new positions; the actual number was 528,000, a large jump from June's increase of 398,000.

Getting back to the market and its wishful thinking, the Fed may be considering a pause in interest rate increases. The Fed has said it is focused on curbing inflation, and it's actually beneficial for unemployment to go *up* in pursuit of that goal. That didn't happen last week; instead, unemployment went down (from 3.6% to 3.5%). It's the exact opposite of what the Fed wanted to see, since continued strength in the employment sector adds directly to inflationary pressures. The Fed is in full-on inflation-fighting mode, and the latest jobs number only solidified that course.

The market is continuing to fight the Fed but will likely lose out to higher rates. The unfortunate thing is that the longer the market fights this battle and the arguments continue as to whether or not we're in a recession, the more a lack of clarity and consensus will continue to fuel volatility. The current situation will likely drag the pain out longer before we put in a true bottom and resume marching forward.

New legislation coming from Washington

In a stunning turnaround, Senator Joe Manchin decided to back a slimmed down version of the Build Back Better legislation, now dubbed the Inflation Reduction Act of 2022. Again, depending on who you listen to, you will hear various partisan versions of how much the new spending will reduce inflation, if at all. The act will impose new taxes on businesses, expand the IRS and create more Affordable Act subsidies. Some say the act will also lower prescription costs and direct money to green energy projects.

How will this new spending reduce inflation? Did we not learn our lesson from the last time the government put money into our economy in the form of stimulus? The Fed appears to be trying to lower inflation by raising rates and, by extension, slowing the economy to stabilize prices. Taxing companies and collecting additional taxes with a more aggressive IRS will likely not help lower inflation and could make our economic downturn much deeper.

Once again, the government appears to be running counter to the efforts of the Fed. The government should be looking for ways to lower its spending and reduce regulations, making products and services less expensive and leading to lower inflation. Instead, they're spending and giving more money away, which will only encourage higher spending by individual Americans. The tax side is self-explanatory: Either companies will pass higher taxes on to customers or reduce expenses, usually through layoffs. How does that help inflation or the economy? The fight to tame inflation is a two-person lift, and right now, the government does not appear to be shouldering its fair share of the burden.

Coming this week

- On Wednesday, we will get a reading of July consumer price index (CPI), a major marker of inflation. Last month CPI came in at 9.1% year-over-year, the highest reading in over 40 years. We should see a decline in that level given the drop in gas prices, but we could be at elevated levels for some time.
- The producer price index (PPI) is scheduled to be released on Thursday. It should show some signs of slowing as well but will likely not be lower in a meaningful way.
- Consumers have been in a cranky mood, so look for consumer sentiment on Friday to remain sour.
- The mortgage applications report will come out on Wednesday. Thirty-year rates dropped last month, so we'll see if the housing market has picked up.
- Finally, we'll need to start watching the weekly new unemployment claims (released on Thursdays) for signs unemployment is picking up.

Equities:	1 WK	YTD	1 YR	3 YRS	5 YRS
S&P 500	0.36%	-13.03%	-6.41%	13.37%	10.85%
NASDAQ	2.15%	-19.10%	-15.02%	17.89%	14.79%
DJIA	-0.13%	-9.73%	-6.45%	8.45%	8.23%

Interest Rates:	8/5/2022	7/29/2022
UST 10 YR Government Bond Yield	2.83%	2.65%
Germany 10 YR	.956%	0.807%
Japan 10 YR	0.159%	0.183%
30 YR Mortgage	5.41%	5.28%
Oil	$88.40/ppb	$94.15/ppb
Regular Gas	$4.30/ppg	$4.44/ppg

All data as of August 5, 2022

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