Weekly **Market Commentary**

THE WEEK IN REVIEW: Sept. 18 – 24

Fed hammers away with a third consecutive 75-basis-point hike and equity markets reel

After the August consumer price index (CPI) number absolutely crushed all hope of the Federal Reserve pausing rate increases after its September meeting, the market asked a grimmer question: Would the Fed raise interest rates by 75 basis points (0.75%) or go with a full 100 basis points (1%)? Well, the Fed did one better – or maybe worse, depending how you look at it.

We didn't get a full percentage point increase last week nor a hint of any pause. Instead, we got the expected increase of 75 basis points, bringing the federal funds rate to a range of 3%-3.25%. (It was 0% in March.) The twist came in the guidance going forward, which pointed to a "terminal" federal funds rate of 4.6% in 2023. With two Fed meetings left in 2022, the likelihood of a 75-basis-point increase in November took center stage. And if inflation remains elevated, we could end the year with two super-sized 75-basis-point hikes.

The other alternative is an increase of 75 basis points in November, another 50 basis points in December and 25 basis points in the first quarter of 2023. The roadmap right now is calling for 2022 to end with the federal funds rate at 4.4%, a 4.6% rate through 2023, then a decline to 3.9% in 2024.

Bear in mind, these levels are significantly higher than where we currently are at 3%. There is a very real possibility the Fed will overplay its hand. The 10-year Treasury is already at 3.7%, while the two-year is over 4%. These rates will only go higher as we close out the year and recession seems to be a foregone conclusion.

Stocks were bashed around last week, as concerns about a looming recession and economic slowdown combined with fear the Fed will go too far. U.S. equities are now at their mid-June lows. The Fed will use the job market to gauge if it needs to hold off additional hikes. As inflation remains stubbornly high, unemployment will likely remain low because we have entered a new era in how employees view work. The Fed will not see unemployment rising and may assume they still have a path to go higher, continuing to raise rates as we slide deeper into recession. This is all bad news for stocks; higher rates will hurt earnings and will make fixed income a better option for a lot of investors and provide an alternative to equities. The end of TINA ("there is no alternative" – to equities) may be at hand.

Putin threatens nukes and calls up Russian reservists for the first time since WWII

Last week, Russian President Vladimir Putin gave a rambling speech in which he not-so-subtly expressed a willingness to use tactical nuclear weapons in his war with Ukraine. Putin also called up 300,000 reservists (including ex-soldiers as old as 65) to serve in his depleted army. This is the first such call in Russia since World War II.

Ukraine has made some progress against the Russians, regaining a lot of territory. The issue here is that as Putin is forced further into a corner, his threat of using a nuclear device becomes more real. If he were to do so, it would be a global game-changer. The last – and only – time nukes were dropped in combat was in 1945, when the U.S. used them to end the war with Japan. Think of the repercussions those two explosions had on the world stage for the past 77 years.

If Russia used a tactical nuke, what would the American response be? Where would the Russians stop? How would China, North Korea or Iran react? Never mind the Europeans, who are already on their heels economically from the results of the current war. Maybe it's just posturing, but there is a possibility that Putin is more desperate than many believe. And remember, there is no such thing as a retired dictator; they tend to be killed before their removal.

The results of a nuclear explosion on markets and economies could be catastrophic, not to mention all the human suffering if there were additional energy and food shortages worldwide. We certainly hope Putin's speech was just bluster and we can find a peaceful solution to the conflict.

Coming this week

- There will be quite a bit of data this week, while a slew of Fed officials will give their take on the most recent Fed meeting. Fed leaders Bostic, Bullard, Mester, Daly, Evans, Brainard and Williams will all make comments, and any or all could have market-moving consequences.
- On Tuesday, we will get consumer confidence, housing starts, Case-Shiller home price index and durable goods numbers. We already know the housing market is in decline, so the housing starts and Case-Shiller home price index likely will be down. Durable goods (the things we buy after a home purchase, like refrigerators, washers, etc.) may also be down. What will be of more interest is if consumer confidence tanks.
- We will get a status on retail and wholesale inventories plus pending home sales on Wednesday. These numbers will either reinforce the prior day's data or contradict it.
- On Thursday, we will get the final reading of second-quarter gross domestic product (GDP) and a forecast of corporate earnings.
- Finally, on Friday, we'll get consumer spending and consumer sentiment numbers. Also, throughout the week, there will be bond auctions, which can get messy in the current environment.

Equities:	1 WK	YTD	1 YR	3 YRS	5 YRS
S&P 500	-4.65%	-22.51%	-16.99%	7.27%	8.10%
NASDAQ	-5.07%	-30.53%	-27.80%	10.24%	11.08%
DJIA	-4.00%	-18.57%	-14.88%	3.16%	5.77%

Interest Rates:	9/23/2022	9/16/2022
UST 10 YR Government Bond Yield	3.69%	3.46%
Germany 10 YR	2.025%	1.758%
Japan 10 YR	0.235%	0.247%
30 YR Mortgage	6.55%	6.28%
Oil	$79.42/ppb	$85.60/ppb
Regular Gas	$3.77/ppg	$3.81/ppg

All data as of Sept. 23, 2022

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