In this month's recap: Stocks dropped on renewed fears of higher rates and economic weakening, coupled with some tough talk by the Fed chair.

Monthly Economic Update

Presented by Frank DeMaio, September 2022

U.S. Markets

Renewed fears of higher rates and economic weakening, coupled with a tough talk by Fed Chair Jerome Powell and other Fed officials, sent stocks lower in August.

The Dow Jones Industrial Average dropped 4.06 percent whereas the Standard & Poor's 500 Index fell 4.24 percent. The Nasdaq Composite lost 4.64 percent.[1]

A Strong Start

August started off well enough, building on the summer rally over the course of the month's first two weeks. Investor sentiment was lifted by a surprisingly strong employment report that saw the economy add 528,000 jobs in July and later by a better-than-expected Consumer Price Index (CPI) report that saw inflation decelerate slightly.[2,3]

Earnings Update

A fresh batch of positive earnings surprises provided an additional boost for stocks. Overall, the earnings season turned out to be better than what many investors had expected. With 97 percent of the companies comprising the S&P 500 reporting, 78 percent reported earnings that exceeded Wall Street analysts' estimates.[4]

The fuel for the stock market's rebound since the mid-June low was, in part, the belief that the Fed may ease up on the pace and magnitude of interest rate hikes owing to early signs that inflation may be cooling.

Powell's Hammer

But Fed Chair Powell's much-anticipated speech at the Jackson Hole Economic Symposium rattled investors. By the time Powell finished his speech on the morning of August 26th, the market was in full-on retreat. Powell's comments did not include anything investors hadn't already heard, but the forcefulness with which he communicated the Fed's commitment to lowering inflation struck many investors as especially hawkish.

The market's month-to-date gains disappeared following the speech as Powell appeared to end any investor hope of a pivot by the Fed. Stocks added to their losses in the month's final days as investors confronted a monetary policy landscape that potentially offered little relief from further Fed interest rate hikes.

Sector Scorecard

Most industry sectors ended lower for the month, including Communications Services (-3.53 percent), Consumer Discretionary (-4.50 percent), Consumer Staples (-1.85 percent), Financials (-1.96 percent), Health Care (-5.77 percent), Industrials (-2.83 percent), Materials (-3.48 percent), Real Estate (-5.62 percent), and Technology (-6.21 percent). The Energy (+2.65 percent) and Utilities sectors (+0.53 percent) registered a monthly gain.[5]

What Investors May Be Talking About in September 2022

In the month ahead, all eyes will be on the Fed again when it meets in late September. After two consecutive 75 basis point hikes in June and July, the Federal Open Market Committee (FOMC) will once again be meeting to consider what's next for short-term rates.

The outcome of this meeting, scheduled for September 20–21, appears more certain following Fed Chair Powell's Jackson Hole speech. But the Fed has indicated that any potential rate hike will depend upon the economic data leading up to the meeting.

Some see the second consecutive quarter of GDP contraction and declining energy, metals, and food input costs influencing the Fed's decision. Others believe that comments in August by Powell and other Fed officials that the inflation fight is not over may have thrown cold water on that hope.

TIP OF THE MONTH

Most homeowner insurance policies do not cover damage from floods and earthquakes. You will need to purchase separate coverage for protection from those calamities.

World Markets

Weakening economies in Western Europe and China rippled through overseas markets, with the MSCI-EAFE Index falling 4.61 percent last month.[6]

Losses were posted across European markets, including France (-5.02 percent), Germany (-4.81 percent), and the U.K. (-1.88 percent).[7]

Pacific Rim markets fared better, but still ended the month mixed. Hong Kong lost 1.0 percent while Australia picked up 0.60 percent.[8]

Indicators

Gross Domestic Product: The economy shrank at an annualized rate of 0.6 percent in the second quarter, an improvement from the initial estimate of a 0.9 percent contraction.[9]

Employment: Nonfarm payrolls increased by 528,000 in July, which was double the consensus estimate. The unemployment rate dipped to 3.5 percent, while average worker wages rose 5.2 percent from a year ago.[10]

Retail Sales: Retail sales were flat month-over-month, but when excluding gasoline and auto sales, consumer spending rose 0.7 percent.[11]

Industrial Production: Industrial output increased 0.6 percent—double Wall Street estimates—as oil and gas drilling reached a seven-year high.[12]

Housing: Housing starts declined 9.6 percent in July, as higher costs and mortgage rates pinched new construction activity.[13]

Existing home sales fell 5.9 percent from the sales in June, as higher interest rates weighed on buyer affordability. It was the sixth consecutive month that existing home sales have declined. Despite the softness, the median sales price rose 10.8 percent from 12 months ago.[14]

New home sales dropped to their lowest level since 2016, falling 12.6 percent in July. Compared with those a year ago, sales are down by 29.6 percent.[15]

Consumer Price Index: Consumer prices eased in July but remained near record highs as the CPI rose 8.5 percent year-over-year.[16]

Durable Goods Orders: Durable goods orders were unchanged from the previous month, though were higher by 1.2 percent when excluding defense orders.[17]

QUOTE OF THE MONTH

"There is no writing that is writing without teachers."

DAVID BARTHOLOMAE

The Fed

Minutes from July's Federal Open Market Committee (FOMC) meeting reflected a broad consensus among Fed officials that additional rate hikes were still required to combat elevated inflation, though acknowledging economic weakness may temper the size and pacing of such hikes.[18]

"Regarding developments abroad, central banks in advanced foreign economies had quickened the pace of policy tightening in order to address above-target inflation," according to the July meeting minutes. "Eight advanced-economy central banks raised their policy rates over the period."[19]

MARKET INDEX	Y-T-D CHANGE	August 2022
DJIA	-13.29%	-4.06%
NASDAQ	-24.47%	-4.64%
S&P 500	-17.02%	-4.24%

BOND YIELD	Y-T-D CHANGE	August 2022
10 YR TREASURY	1.62%	3.13%

Sources: Yahoo Finance, August 31, 2022.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

THE MONTHLY RIDDLE

Two boxes each hold four hot sauce packets and four soy sauce packets. Without looking, you take one packet from each box. What are the chances that at least 1 of the packets you draw is a hot sauce packet?

LAST MONTH'S RIDDLE: Michael introduces Levi to his friends, stating that Levi's father is also the son of Michael's father. But Michael is an only child. So how are Michael and Levi related?

ANSWER: Levi is Michael's son.

Frank DeMaio may be reached at 603-641-1010 or fdemaio@jtdfinancial.com
www.jtdfinancial.com

Know someone who could use information like this?

Please feel free to send us their contact information via phone or email. (Don't worry – we'll request their permission before adding them to our mailing list.)

CITATIONS:

1. WSJ.com, August 31, 2022
2. WSJ.com, August 5, 2022
3. CNBC.com, August 10, 2022
4. LipperAlpha.refinitiv.com, August 26, 2022
5. SectorSPDR.com, August 31, 2022
6. MSCI.com, August 31, 2022
7. MSCI.com, August 31, 2022
8. MSCI.com, August 31, 2022
9. FoxBusiness.com, August 25, 2022
10. CNBC.com, August 5, 2022
11. WSJ.com, August 17, 2022
12. MarketWatch.com, August 16, 2022
13. WSJ.com, August 16, 2022
14. WSJ.com, August 18, 2022
15. FoxBusiness.com, August 23, 2022
16. CNBC.com, August 10, 2022
17. WSJ.com, August 24, 2022

18. WSJ.com, August 17, 2022
19. Federal.Reserve.gov, August 17, 2022