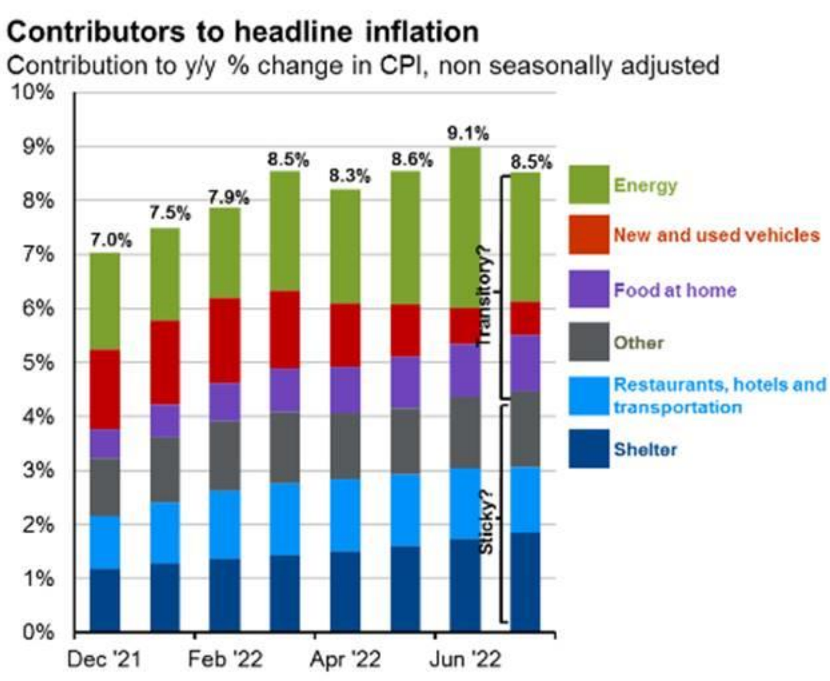
Monday, August 15, 2022

Good afternoon:

After months of fairly steady inflation increases, equity markets celebrated last week's July CPI report which came in softer than expected. While the year-over-year rate cooled from 9.1% in June to 8.5%, much of the focus was directed towards the flat one-month net inflation rate. As we discussed last week, this is primarily due to the significant decline in oil prices from this year's highs hit in early June.

However, as this chart illustrates, other areas of the economy are still showing consistent price increases. It's within these areas that the Fed may be most challenged to have an immediate impact. The longer inflation remains "sticky" in certain key sectors, the longer the Fed may stay aggressive, reducing the chances for a "soft landing."




Source: BLS, FactSet, J.P. Morgan Asset Management.

In anticipation of similarly positive inflation data to come, U.S. equities staged a broad-based rally that moved the Dow, S&P 500, and NASDAQ each higher by 3% or more.  Leading all major indices were the small-caps in the Russell 2000 that surged 4.97% by week's end.  After such a significant rebound off the June low, we would prefer to see a pause so we don't get too far ahead of reality.  With oil and inflation moderating, and market momentum clearly to the upside this quarter, it is unlikely that any equity pullback from here will be exacerbated by as many aggressive short-sellers.

This morning's drop of nearly 200 Dow points at the opening was almost fully recovered an hour later as investors jumped in again to buy the dip.  By early afternoon, all major indices are solidly higher.  Attention will be focused on several upcoming reports this week that may give further evidence as to the strength of our economy and whether the Fed's rate hikes have had any impact.  Already at two-year lows, Housing Starts are expected to weaken further since rising mortgage rates have softened some demand.  Additional reports of Industrial Production and Retail Sales will also be analyzed this week for signs of slowing demand.

We continue to remain cautiously optimistic that our economy will remain buoyant and inflation will continue slowly moderating.  Volatility, in either direction, should be anticipated for most asset classes.  As upcoming data dictates, we look for the Fed to "pivot" at some point this year to a less aggressive posture in their rate hiking tactics as they seek to create that ever-elusive goldilocks economy.

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Have a great week!

Mark and Jeff

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The Dow Jones Industrial Average (DJIA), commonly known as “The Dow” is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

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