Monday, August 22, 2022

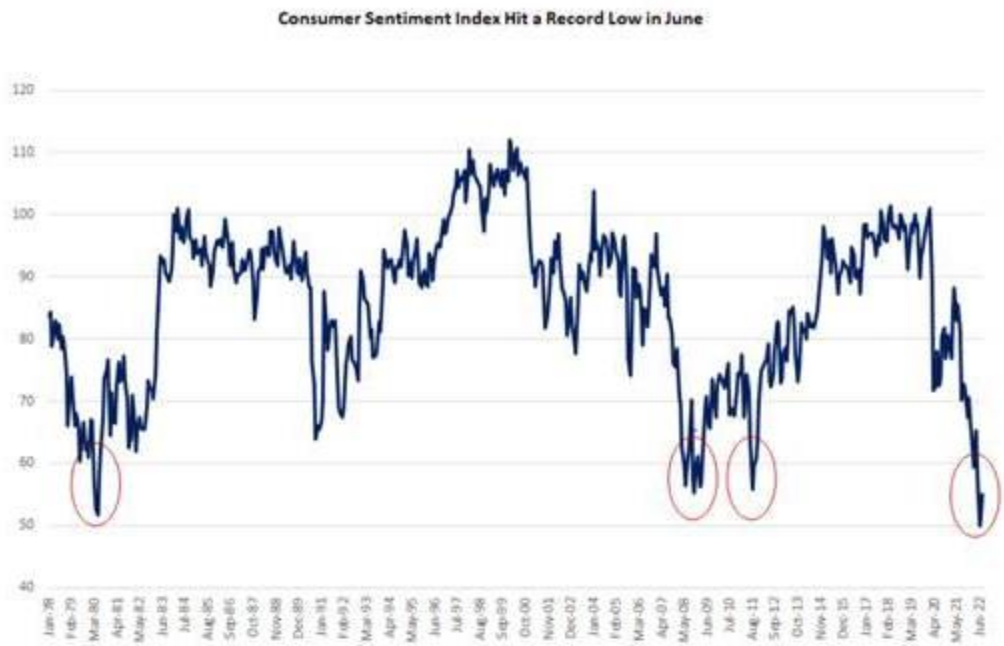
Good afternoon:

After several consecutive weeks of gains since the start of this quarter, equities posted modest losses last week in fairly calm trading. The S&P 500 declined 1.2% while the NASDAQ gave back 2.6% in what may be a healthy pause in the wake of strong gains posted since early July. Despite the week's losses, many analysts and market forecasters remain cautiously optimistic on the near-term future of consumers and the economy, and thus equities. This was clearly not the case for much of the first half of this year.

While debate continues as to whether a recession is in the offing or already underway, it is likely the consumer that will determine the broader course of the economy's next move. With personal consumption accounting for 70% of GDP, economists will continue looking for consumer trends to predict the upcoming financial health of our country. Recently released July retail sales reports indicate that the consumer has *not* gone into hiding. With less being spent on gasoline compared to June, healthy upticks in spending were reported in online sales, restaurants, and leisure activities. Consumer's choice in not reducing overall spending is seen as a positive force supporting economic output.

Last week's housing-market data revealed that a broad-based deceleration has begun. Permits are down, homebuilder sentiment has declined, and mortgage applications have hit their lowest levels since November 2020. With mortgage rates well above their historical lows from last year, this should not come as a big surprise to anyone.

However, with the stock market well off its low, gasoline prices slowing declining, and hopes that inflation may be peaking, the next University of Michigan Consumer Sentiment report is likely to show an uptick from its last reading, the worst in its history. A bottoming out in consumer attitude tends to be followed by favorable market performance. In the three previous instances when the sentiment index fell below 60 ('80, '08, '11), the stock market was higher in each of the following six- and 12-month periods, with the S&P 500 averaging an increase of 16.0% over the next six months and 20.9% over the following 12 months.



Source: FactSet.

Hoping for signs of a pivot to a less aggressive rate hiking posture, markets will be focused on any comments stemming from this week's annual meeting of Fed officials at their Economic Symposium in Jackson Hole, Wyoming. Since we see such a change in tactics as a bit premature with inflation still at 40-year highs, we are not expecting any such dramatic announcements. However, even a small hint of any forthcoming material change from the Fed will likely be market moving this week.

We hope you are having a great summer!

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