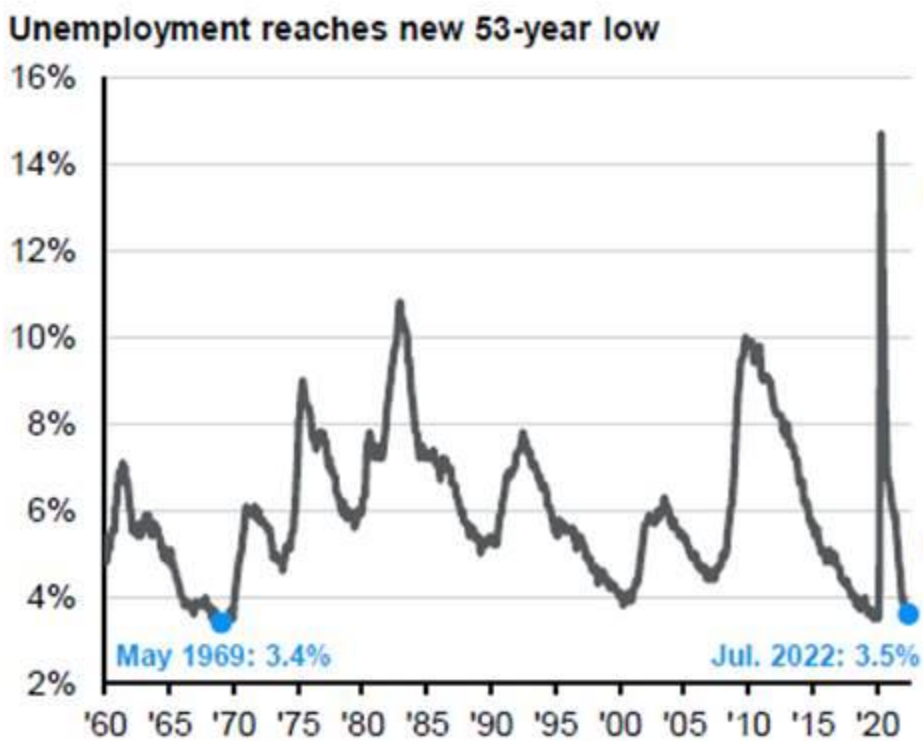
Monday, August 8, 2022

Good morning:

The argument that we are not *currently* in a recession, despite a clear and universally recognized economic slowdown, was strengthened last week with the release of the July jobs report. The Bureau of Labor Statistics reported the U.S. economy added 528,000 new jobs last month, more than doubling expectations. This brought the unemployment rate down to 3.46%, the lowest since May 1969, with the bulk of new jobs coming from the service sectors.



Markets initially reacted negatively to this strong report under the assumption that the Fed would have to act more aggressively to lower inflation. However, armed with this new evidence of our resilient economy, along with hopes that inflation may have peaked and soon begin to moderate, equity markets mostly resumed their rebound from Q2 lows. Posting its third consecutive winning week, the S&P 500 Index eked out a gain of 0.39%, although the Dow was slightly off -0.11%. Leading all major indices was the

NASDAQ with an impressive gain of 2.18%. All three averages are opening to the upside today with gains of over ½% by mid-morning.

We have previously discussed how integral energy costs are to prices in general and in turn, the overall inflation rate. As the CPI is a lagging indicator, it was clear to many as oil surged above $120/barrel in early June that inflation data would likely get worse over the coming months. In fact, it is entirely possible that it could continue to take time to see these price spikes permeate through all facets of the economy. However, with oil today trading more than 26% off its June high at $88.85/barrel, it is reasonable to assume that the inflation rate will start to noticeably decline in the coming months. The market is starting to believe the Fed may "pivot" to a less aggressive approach if and when a diminished CPI figure is achieved. Although such a reality would be well received by equity markets, it seems likely some of our recent recovery is based on the anticipation of this potential course of events.

Meanwhile, after much negotiating and horse trading, Democrats in the U.S. Senate passed a slimmed down version of last year's failed tax and spending bill. Now headed to the House for more potential negotiations and adjustments, the "Inflation Reduction Act" bill covers a wide array of spending and tax increases under the Budget Reconciliation legislative process. In an effort to reduce U.S. greenhouse emissions, $370 billion would be spent on climate and energy programs. Additional provisions would enable Medicare to negotiate some prescription drug costs in an effort to lower the amount participants currently pay, particularly those under the Affordable Care Act.

Corporations would now have a 15% minimum income tax rate, as well as a new 1% tax on stock buybacks. The bill also intends to spend an additional $80 billion to hire and train 87,000 new IRS agents, nearly doubling the current number, in hopes that many more audits will net an estimated $124 billion in addition taxes from individual Americans according to the Congressional Budget Office.

If the significantly larger COVID-19 relief spending bills passed since 2020 are to blame for the current inflation spike, it could be a challenge for this bill to live up to its name. At least it is intended to be deficit-neutral, not requiring any addition to our $30.5 Trillion national debt! Like any such bill, only time will tell if it is effective at meeting its intended objectives once fully implemented.

Have a great week!

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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.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.

International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility.

Investing in emerging markets can be riskier than investing in well-established foreign markets. Investing involves risk and investors may incur a profit or a loss.

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Holding stocks for the long-term does not insure a profitable outcome. Investing in stocks always involves risk, including the possibility of losing one's entire investment.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US
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