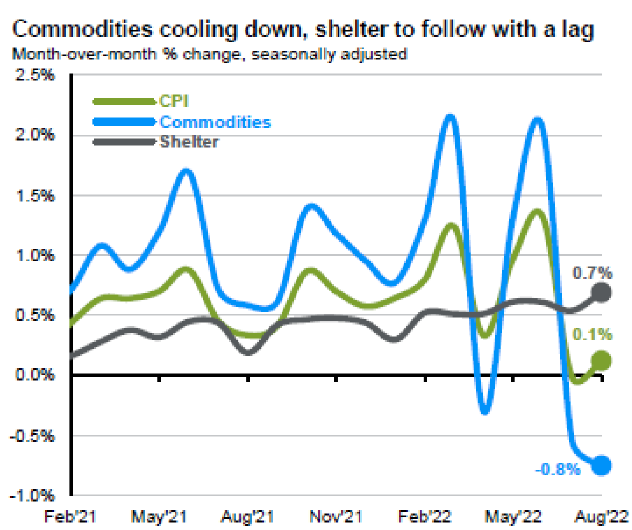
Monday, September 19, 2022

Good morning:

The negative turn in market sentiment accelerated last week with the disappointing announcement of August inflation data. Until a few weeks ago, investors had adopted a view that inflation would decelerate at a steady pace for the rest of the year. While headline CPI did decline to 8.3% year/year in August thanks to a 5% decline in energy prices, the report surprised many with a 0.1% month/month *increase* when sequential declines were expected.

Food prices rose 0.8% during the month while core goods and services, along with shelter costs continued to move higher. It was hoped that a broader decline in the monthly inflation data would portend an easing in Fed posture in the coming months. Instead, markets sold off sharply with the realization that this summer's optimistic outlook on cooling inflation was premature at best. By Friday's close, equity indexes were off 4 to 5 ½% for the week.

As we have discussed, there is a clear lag between the decline of a commodity price like oil and the price of a finished good or service to the consumer. Producer prices need to start coming down first, and they have as evidenced by the 0.1% month/month decline in PPI. Along with most economists, we see this eventually aiding the decline in CPI.



**Source: JP Morgan Asset Management*

This week has started with continued selling at the open, followed by a rebound to positive territory by mid-morning. The Fed's meeting this Wednesday will almost certainly result in another 0.75% rate hike, although some could argue for an even larger increase. Not wanting to signal any panic, we do not foresee them hiking a full 1%. And yet, this Fed was clearly remiss in not addressing the growing inflation risk, calling it "transitory," far sooner. Former Fed Chairman Alan Greenspan was often criticized for raising rates preemptively, before inflation could take hold. He knew that once inflation had a chance to permeate an economy, it was very difficult to bring down. Current Fed Chairman Powell could have helped his cause had he taken Greenspan's approach.

The recently discussed letter-shaped stock market charts are clearly forming the middle of a W-shaped pattern with many market technicians now expecting a retest of the June low. If that low holds and starts to rebound once again, the final upward line of the W will be complete. As interesting as this may be, will it matter all that much to a longer-term investor in five or ten years? Probably not. In the near term, we expect continued volatility and a highly data-driven market while inflation *slowly* moderates. It's important not to lose sight of long-term investment objectives in the face of near-term events and the market's knee-jerk reaction to them.

Have a great week!

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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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