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Market Update: August 2022

August was rough for virtually all investors, as global stocks and global bonds were each down nearly 4% for the month. While equity investors are still up 3% over the past two months, stock market benchmarks remain down by nearly 18% year-to-date.

> **Markets remain restless … In short, markets now see higher interest rates and slower economic growth ahead.**
>
> **Nicholas Jasinski – Barron's 8/30/22**

The Federal Reserve has delivered four consecutive interest rate hikes over the past six months. More recently, stock investors had been hoping that the Fed would *"pivot"* away from their aggressive rate hikes. That hope officially ended with Chairman Powell's unusually brief … and more direct … speech at the annual Jackson Hole conference.

> **Instead, it is the stock market that has pivoted.**
>
> **Matt Grossman – WSJ 8/28/22**

There is now a high probability that the Fed will raise rates by an additional three-quarters of a percentage point at its September meeting. Traders also expect the Fed to continue raising rates well into 2023 to bring down inflation.

> **Our responsibility to deliver price stability is unconditional. We are committed to doing that job. We will keep at it until we are confident the job is done.**
>
> **Fed Chair Jerome Powell – Jackson Hole Symposium 8/26/22**

The Fed's overall concern is that the current inflation surge could be a lasting reality. As a matter of fact, many of the forces that were deflationary over recent decades could potentially be reversing.

> **This new era would mark an abrupt about-face after a decade in which central bankers worried more about the prospects of anemic economic growth and too-low inflation, and used monetary policy to spur inflation.**
>
> **Nick Timiraos – WSJ 8/24/22**

Consider the following three major forces that held down inflation over the past few decades:

- **Globalization:** Geopolitical tensions and concerns over the reliability of supply chains are causing businesses to move production closer to home. According to a report by the Reshoring Initiative, American companies are on pace to return to the U.S. nearly 350,000 jobs this year.
- **Labor Markets:** Low-wage workers from Asia and Eastern Europe have held down labor costs. That glut of available low-wage labor seems to be reversing into an era defined by worker shortages.
- **Energy and Commodity Prices:** Investment in these areas has been modest over the past decade, creating risks of shortages in the face of growing global demand.

> **The global economy is undergoing a series of major transitions. The long era of low inflation, suppressed volatility and easy financial conditions is ending.**
>
> **Mark Carney, Former Bank of England Governor – WSJ 8/24/22**

The yield on the 10-year Treasury note went from 2.64% to 3.13% during August. While that is a considerable one-month jump, the rate is still lower than the 3.45% yield on the 2-year Treasury note. That tells us the bond market is anticipating lower rates over the longer term. Otherwise known as an *inverted yield curve*, it is also a warning that an economic recession might be just around the corner.

Oil prices posted their third straight monthly decline. Consumption has been declining in the U.S. and Europe, while factory activity in China has been relatively weak.

> **Fears that Russian crude would be shut out of the market by sanctions, leaving the world starved for oil, have helped lift prices. Expectations for demand to decline amid deteriorating economic conditions have pulled them lower. Lately, demand concerns have been winning the tug of war.**
>
> **Dezember/Hirtenstein – WSJ 8/31/22**

The Commerce Department reported consumer prices increased 0.1% in July from the previous month, which was well below the 0.6% increase registered in the previous month. Prices were up 6.3% on an annual basis, lower than the 6.8% increase for the 12 months ended in June.

> **We're heading in the right direction – inflation is coming down. But we're a long way off target, and we think it's going to be a while – multiple years – before we're back to target.**
>
> **Andrew Schneider, BNP Paribas – WSJ 8/26/22**

Gasoline prices are down, but still at relatively high levels. Retailers have a glut of inventory, but consumers are pulling back on their spending. Conversely, unemployment remains at or around historical lows, and there are still nearly two job openings for everyone one person looking for employment.

> **The uncertainty moving forward is significant. There are cases to be made that things could get better pretty quickly, and then there are credible cases to be made that it's going to be tough.**
>
> **Erik Nordstrom, Nordstrom CEO – WSJ 8/28/22**

The economy added 315,000 jobs in August (Labor Department report issued on 9/2/22). While less than last month's 526,000 additions, it was still a solid showing.

> **The labor market is still very strong, but the report shows an initial step towards some cooling of what has been a very tight labor market.**

Rhea Thomas, Wilmington Trust – WSJ 9/2/22

The unemployment rate rose to 3.7% from 3.5% in July. Rising unemployment was considered to be good news, as it reflected the fact that more people were entering the job market. Average hourly earnings increased by 0.3%, which suggested that wage pressures were moderating.

> **The labor market will eventually cool. It may be cooling already. At best, wages after inflation are holding even.**

Brad Hershbein, W.E. Upjohn Institute – WSJ 9/2/22

The labor-force participation rate rose to 62.4% in August from 62.1% in July. Nearly 3 million more workers would be needed to get back to the 63.4% participation rate registered in February 2020. As we look ahead, expect U.S. participation rates to be significantly impacted by aging demographics and immigration policy.

> **Friday's employment report was close to perfect. It is, of course, just one month's-worth of data … But maybe, with the pandemic easing, more people will be entering the workforce, making it easier for employers to find workers, alleviating downward pressure on the unemployment rate and keeping wage growth from jumping too much.**

Justin Lahart – WSJ 9/2/22

High inflation, supply chain disruptions, and rising interest rates are pressuring business activity in the U.S., Europe, and Japan. Surveys of purchasing managers show weakness in both manufacturing and services, suggesting higher prices are holding down household spending. Also, Russia's invasion of Ukraine has continued to disrupt supply chains and damage household and business confidence.

> **The bad news keeps coming for Europe's economy, and if you're in America resist the temptation to gloat. Europe often relies on the U.S. and Asia to provide an export bailout, but those cavalries aren't coming. Call it a recession or don't, but the U.S. is barely growing as interest rates rise.**

The Editorial Board – WSJ 8/23/22

China has long been the engine for global economic growth, but factory activity is on the decline as its real estate market implodes. Home sales have declined for the past fourteen months, while a resurgence of Covid-19 cases has forced new lockdowns in Chinese cities. Sales at the top 100 property developers have fallen by 30% over the past year, according to data from China Real Estate Information Corporation.

> **A two-decade boom in real estate made many Chinese families feel richer. Now that the market has turned, many are curbing spending as their wealth declines, worsening the country's economic slowdown.**

Stella Yifan Xie – WSJ 8/25/22

Maybe the biggest economic concern in China is employment. For workers between the ages of 16-24, unemployment levels reached 19.9% in July. This is happening when China's working age population (ages 15 to 64) is on the decline. According to official records, China's working age population shrank by about 4 million in 2021.

The numbers tell quite an astounding story. Such a significant deterioration in the labor market – even with fewer workers – hints at just how quickly things have unraveled for China's young job seekers.

Nathaniel Taplin – WSJ 8/31/22

China's economic strength has always been driven by exports. But China's trade surplus is also a result of feeble imports … or weak domestic demand. To put it another way, China's economy is dangerously lopsided, and consumers are struggling.

Let's end with a bit of history. The Dow Industrials bottomed at 777 in 1982, a level that it had reached in 1964. In fact, it hit 1,000 five different times between 1964 and 1982. The index peaked on Jan 4, 2022 at 36,800 … a gain of 47 times or 9.8% annualized.

Forty-seven times in 40 years is a heck of a run. A lot of folks made a lot of money. But as the adage goes, don't confuse a bull market with brains.

Andy Kessler – WSJ 8/7/22

It should also be noted that the federal-funds rate was 10% in 1982 … down from peaking at 19% … for younger readers, this is not a typo!

The outlook for the economy, as well as equity markets, has obviously changed … at least for now. As investors, we need to stay humble.

I know it can be difficult, but let's try not to get derailed by all the market noise. Stay focused on the planning and structural issues we can control. Let us know if we can be of any help.

Daniel G. Corrigan, CPA/PFS, CFP®