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Economic Indicators | October 2022 | By Kim W. Suchy

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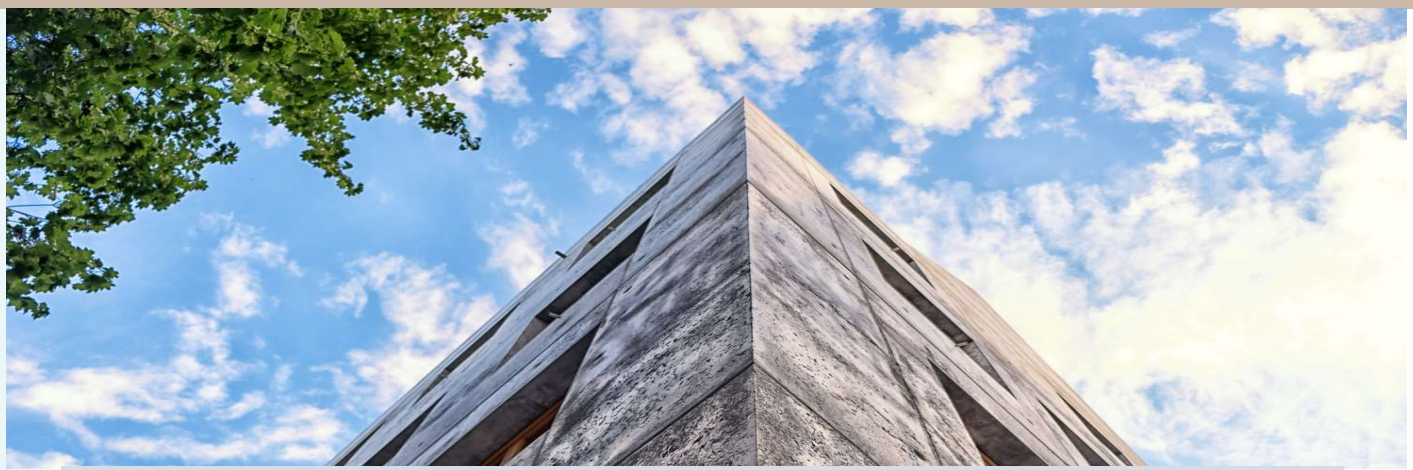

September, historically, has been a rough month for the stock market. In 2022, this was no exception as we saw stocks fall substantially and bond yields continue to climb. One of the more interesting aspects to the current market is its interpretation of data and inability to hold gains. It was not long ago that any data point was seen as a positive and prices would rally. Premarket and early morning selloffs were met with buyers and market quickly regained any losses. Fast forward to today where we find ourselves seeing the exact opposite.

In the fixed income market, bonds have had what can only be described as a brutal month. Ten-year note closed the month at 3.83%, while two-year notes closed at 4.27%. The yield curve has been inverted for much of this year, meaning shorter term maturities are yielding higher rates than longer term maturities. An inverted yield curve is often cited as a sign of an economic recession. The jump in yields across the board has pushed mortgage rates to their higher levels in fifteen years with thirty-year mortgage rate topping 7% this month.

Economic data remains very much mixed. Housing prices are beginning to show signs of weakness. However, consumer spending has remained strong. Last week's jobless claims number was better than expected which indicated, despite some high-profile companies announcing layoffs, the overall job market appears strong. Next week, we'll get the September employment report which will certainly be an event markets key in on.

In sum, the markets will continue to be volatile as economic data is released. The important thing to remember is that volume is not very heavy, so markets tend to make big moves on little volume. When the markets take on a more normalized environment and volume returns to normal, prices will stabilize. Looking out over the 40-day horizon, we have an election which may change the composition of Congress. Many expect a change in Congress, which may create a gridlock with respect to policy changes. The financial markets like gridlock because big policy changes become rare events and their respective impacts (costs, taxes, and interest rate swings) are minimized.

POSITIVE DEVELOPMENTS

- The Bureau of Labor reports that the US labor market remains exceptionally strong. Despite all the concern about interest rates and economic growth abroad, the August unemployment rate came in at 3.7% only 1.2pts above its all-time low of 2.5% posted in May and June off 1953.
- UK Chancellor of the Exchequer unveiled a tax-cutting budget that also included supply-side reforms and a GBP 60B ($64 USD) energy support package for households and businesses aimed at achieving 2.5% annual growth. The package includes reductions in the top and basic rates of income tax, and the cancellation of increases in national insurance contributions (a payroll tax) and corporation tax.

NEUTRAL DEVELOPMENTS

- The housing market is the most sensitive to and experiences the most immediate impacts from Fed rate policy changes. As a result, existing home sales contracted for the 7th consecutive month and will create tight inventory as many homeowners are unwilling to trade up or trade down after locking in historically low mortgage rates in recent years. The flip side is that this will create an increasing need for more new home construction to boost supply and satisfy housing demand.
- At Fed Chair Powell's press conference, even though he gave us recessionary trepidations, he stated that "people have savings on their balance sheet from the period when they couldn't spend and where they were getting government transfers." He said that these excess savings could "support growth." He also noted "that the states are very flush with cash." He concluded, "so there's good reason to think that this will continue to be a reasonably strong economy." *Let's wait and see…sentiment may dictate this.*

NEGATIVE DEVELOPMENTS

- The Bureau of Economic Analysis notes that the pace of higher grocery bills has been rising. The food inflation rate in August's CPI was 11.6% on a 3 month change basis and 11.4% on a yearly basis. Prices will probably remain elevated due to drought in the US and South America, and the Ukraine war creating uncertainty about global grain supply. Rising food prices could impact consumer purchasing power.

- Inflation is spreading across the globe as European Central Bank (ECB) President Christine Lagarde called on governments not to adopt measures that will fuel inflation. But many European countries are taking fiscal measures to aid households and businesses, as energy prices and inflation remain high. So, the bank may be fighting not only inflation but also fiscal policy. *Seems Lagarde and Powell may be sharing the same playbook.*

- The 4-week average of weekly mortgage application is down 31% since the start of this year through mid-September, according to the Mortgage Bankers Association. The sum of new and existing single-family home sales plunged 27% from 6.6M units (a/r) during January to 4.8M units during July. Both housing starts and building permits continued to head lower in July, along with homebuilders' optimism – which dropped to its lowest level in August since May 2020.

THE MARKETS

Historically, September has not generated favorable gains in the market. Volatile swings in the market characterized the month as investors digested inflation data, another interest rate hike, severe weather disruptions and further tensions between Russia and European countries.

The Dow fell 9.2% in September or nearly 3,000 points, marking the worst September since 2002. Stocks remain on pace for one of their worst years, with the Dow, SP500 and Nasdaq down 21%, 25% and 33% YTD, respectively. None of these indices have ended the year down more than 10% since 2008.

Regarding fixed income, the Fed raised rates by another 75bps in September which was expected after another high inflation print and Powell's hawkish speech upset investment sentiment.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	-9.3	-25.0
Dow Jones	-8.8	-21.0
NASDAQ Comp	-10.5	-33.0
Russell 2000	-9.7	-27.9

Source: https://tradingeconomics.com/stocks

NEWS YOU CAN USE

Aaron Judge, the batting slugger for the New York Yankees, tied Roger Maris on September 27th for the most home runs hit in a single season at 61 (without performance enhancing drugs (PED's)). Barry Bonds holds the title at 73 home runs (however, with an asterisk due to PED's). The Yankees have 7 games left in the regular season for Judge to claim the single season home run title. Baseball fans will be watching closely in early October.

https://www.msn.com/en-us/sports/mlb/best-of-the-best-yankees-e2-80-99-aaron-judge-having-e2-80-98greatest-e2-80-99-season-of-all-time-by-a-hitter/ar-AA12rGCj

Hurricane Ian, which barreled into the southwest coast of Florida as a category 4 last week, will most likely will be known historically as "The Big One". Despite storm meteorologists' predictions of a lesser storm, 150 mph winds landed into the coast of Fort Myers, and combined with historic storm surges paved the way for massive destruction throughout the state of Florida and neighboring northeast states. Millions are still without power and the total damage estimates keeps rising, with some estimates as high as $120 billion.

https://www.newsweek.com/hurricane-ian-threatens-cause-120-billion-dollars-damages-1747675

According to the National Association of Realtors, using Bankrate.com data, a $2,500 mortgage payment (assuming a 10% down payment), one year ago could have bought a $671,000 home, and now it could purchase just $424,000. This is due to the fast climb in cost of mortgage debt over the last year.

https://twitter.com/M_McDonough/status/1575835301955932160/

As always, if I can be of additional guidance, please feel free to call me at 312.485.6847.

Best regards,

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