Summary

Economic data for the week included strength in industrial production, little change in retail sales, and mixed results from several regional manufacturing surveys. Housing data also continued a string of weak monthly reports.

Stock markets fell back globally, with U.S. equities faring a bit better than Europe and Asia, and inflation remaining top of mind. Bonds fell back due to rising interest rates across the yield curve, with foreign bonds negatively affected by a continued strong U.S. dollar. Commodities fell back broadly, with the exception of natural gas, buoyed by hot weather and geopolitical constraints.

Economic Notes

(0) **Retail sales** in July were unchanged on a headline basis, just shy of the 0.1% gain expected by consensus. This was coupled with a large upward revision for May into the positive, while June was little changed. Removing autos bumped the July figure to an increase of 0.4%, while the core/control (without autos, gasoline, and building materials) showed a rise of 0.8%—which surpassed expectations. Under the hood, monthly sales rose by nearly 3% for nonstore/online retailers, and over 1% each for building supplies and 'miscellaneous'. Gas stations saw a -2% drop, corresponding to lower gasoline prices outright, as usual, along with declines for autos/auto parts. Over the trailing year, total retail sales are up over 10%, with gas stations up 40% and nonstore retail having gained 20%. Of course, these are all quoted on a nominal basis, which under normal conditions hasn't been that different from after-inflation 'real' sales, but recent high inflation readings can affect readings by 0.5% or more per month (assuming a 6%+ annualized inflation rate as an example).

(+) **Industrial production** for July rose by 0.6%, beating the median forecast of 0.3%. Manufacturing production was up 0.7%, with business equipment up, as well as a strong recovery in motor vehicle production (finally above the 2019 average annual rate). Mining production rose 0.7%, which included oil extraction; utilities production fell by -0.7%, which was weather-related. **Capacity utilization** ticked up 0.4% to 80.3%.

(-) The **Empire manufacturing index** fell by a dramatic -42.4 points to a contractionary -31.3 level for August, in fact to the lowest level in over 20 years. This was contrary to expectations of a far less severe decline to +5.0. A variety of underlying components were quite negative, including shipments and new orders—both of which fell sharply into contraction. Employment also fell by over -10 points, but remained expansionary. Delivery times fell into the negative, showing that these were occurring at a faster pace, while prices paid fell back by -9 points (but remained high on a historical basis). On the other hand, assessments of business conditions six months out rose by over 8 points back into expansionary territory.

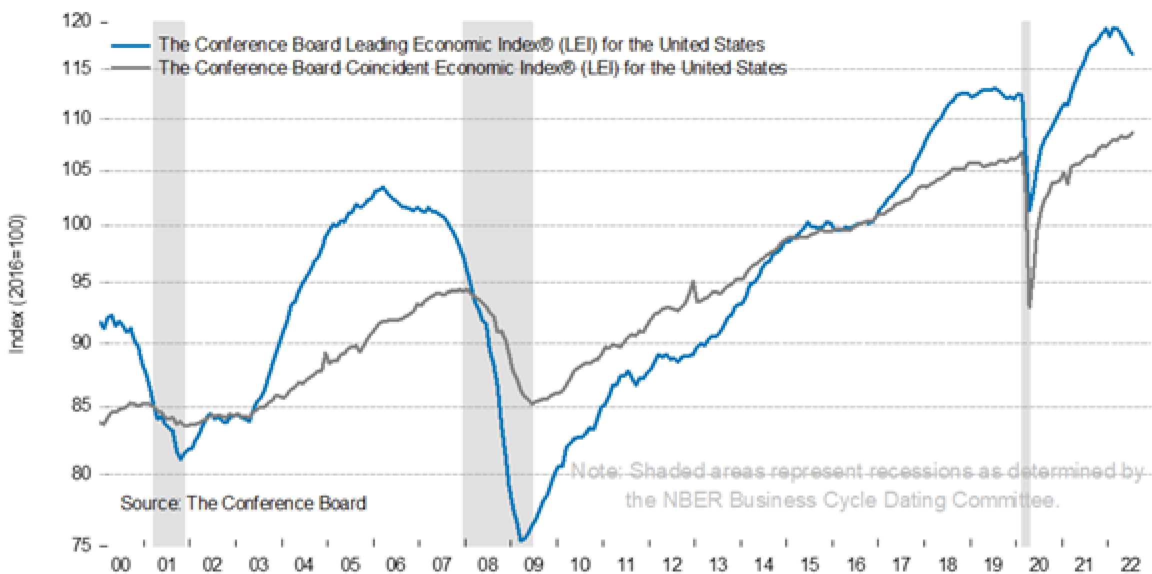
(+) The **Philly Fed manufacturing index**, on the other hand, rebounded by 18.5 points to an expansionary 6.2 level, exceeding the median forecast calling for a contractionary -5.0. Within the report, new orders rose sharply, by nearly 20 points, although the measure remained in contraction. This was also true of expected business conditions six months out, which improved sharply, but remained negative. Prices paid and prices received continued to drop, but remained at high historical levels. Anecdotally, firms indicated that they expect higher inflation to persist over the coming year (but to improve from 6.5% to 6.0%), while inflation expectations for the next decade fell from 3.5% to 3.0%.

(-) **Existing home sales** in July declined by -5.9% to a seasonally-adjusted annualized rate of 4.81 mil. units, surpassing the -5.1% pace expected by consensus. In fact, this was noted to be the weakest report since late 2015 (pandemic aside). Single-family units fell by over -5%, while condos/co-ops dropped by -9%. Every region also saw a decline, led by the West at -9%, and Midwest least impacted at -3%. Overall, national existing home sales are down -20% from this time last year. The median existing home sales price is down over -2% from June's record high, but up 11% on a year-over-year basis to $403,800. Inventory has picked up to 3.3 months' supply, from 2.6 a year ago. The National Association of Realtors noted the negative impacts of mortgage rates rising to 6% at one point, but the improved tailwind of a reduction back to around 5%.

(-) **Housing starts** for July fell by -9.6% to a seasonally-adjusted annualized rate of 1.446 mil. units, reversing a gain the prior month, and below the -2.1% decline expected. Single-family and multi-family both declined by similar amounts. Regionally, the Midwest and South experienced the most severe double-digit declines, while starts in the Northeast rose by over 60%. **Building permits** fell back by -1.3%, which was a bit better than the -3.3% drop expected by consensus. Here, multi-family permits gained 3%, partially offsetting a decline of -4% for single-family.

(-) The **NAHB housing market index** fell by -6 points in August to 49—a two-year low—below the expected minor tick downward to 54. Current sales and prospective buyer traffic fell the most dramatically, while future sales were only slightly down. Every region was in the negative, led by the Northeast. Higher interest rates and anticipated negative impact on housing markets have appeared to play a role in homebuilder sentiment, as they have historically.

(-) The Conference Board **Index of Leading Economic Indicators** for July declined by -0.4%, continuing a string of five straight monthly declines. The index fell by -1.6% over the past six months, which offset the 1.6% increase from the six months prior to that. As noted by the group, the monthly results were led by weakness in consumer sentiment, as well as slower labor markets, housing construction, and new manufacturing orders. Based on historical timing relationships (the leading indicator's timeline is about 7 months), the board is predicting a short and mild recession by year-end 2022 or early 2023. The Coincident Economic Index rose by 0.3% for the month, and the Lagging Economic Index rose by 0.4%—each continuing a string of positive months. As seen in the charts below, the recent declines are in keeping with periods of historical economic weakness.



(+) **Initial jobless claims** for the Aug. 13 ending week fell by -2k to 250k, below the median forecast of 264k. **Continuing claims** for the Aug. 6 rose by 7k to 1.437 mil., well below the 1.455 mil. claims expected. Levels continued to rise in MA, oddly accounting for much of the upward impact, while a variety of other larger states saw changes of +/- 1-2k, which is statistically insignificant.

(0) The **FOMC meeting minutes** from late July showed that members agreed that 'at some point' it would be appropriate to slow the pace of rate hikes. This would allow a pause to assess financial conditions—due to the possibility they 'would have a larger negative effect on economic activity than anticipated.' The notable slowing of economic growth is certainly a concern, but has taken a back seat to inflation readings and inflation expectations, which have also begun to flatten. The inflation picture has been indicated by the Fed as their primary driver for upcoming rate policy, with some debate about how much remains supply-driven versus demand-driven (the latter being the only one the Fed has some semblance of control over). Additionally, as is often mentioned in Chair Powell's Q&A, monetary policy acts with a lag, so the sharp rate hikes in the past few months may not yet have been transmitted to the economy fully, so a pausing of rapid rate hikes allows this to happen. The consensus expectation at this time continues to be a 50 bp hike in Sept., followed by 25 bp each in Nov. and Dec. The Fed had hinted at a 75 bp move in Sept., which appears to be still on the table, despite less pressure as the July CPI report came in less robust than feared. The forward-looking environment remains fluid, as these inflation inputs evolve.

Market Notes

Period ending 8/19/2022	**1 Week (%)**	**YTD (%)**
DJIA	-0.05	-6.02
S&P 500	-1.16	-10.39
NASDAQ	-2.58	-18.37
Russell 2000	-2.90	-12.11
MSCI-EAFE	-2.19	-16.17
MSCI-EM	-1.48	-16.91
Bloomberg U.S. Aggregate	-0.89	-9.70

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2021	0.06	0.73	1.26	1.52	1.90
8/12/2022	2.63	3.25	2.97	2.84	3.12

8/19/2022	2.74	3.25	3.11	2.98	3.22

U.S. stocks fell back, reversing some positivity from the prior week as more hawkish Fed member rhetoric pointed to inflation still posing a significant threat. By sector, defensive consumer staples and utilities led the way, as did energy, each with small gains. Communications and materials lagged the most, with declines of at least 2%, with the former brought down by Meta Platforms/Facebook. Real estate was also down around -2%, being stymied by higher interest rates.

Foreign stocks fell back to a greater degree, due to a stronger dollar, and continued high inflation readings in Europe. Central bankers were far dourer in their assessments than with the U.S. Fed. Inflation in the U.K. over 10% was reported, which represented another 40-year high. China continued to buck the trend of other key global nations, by lowering interest rates last week and injecting other stimulus measures. It was by a modest 0.10%, but was a continuation of a desired soft landing of their own, with weakness from Covid lockdowns on one side, countered by attempts to avoid damage from real estate speculation and boycotts from mortgage payers. The Chinese young adult male jobless rate has reached an all-time high (of nearly 20%), which causes any nation concern.

U.S. bonds lost ground last week as interest rates again ticked higher. Treasuries outperformed corporates slightly, as credit spreads widened, particularly in high yield. Foreign bonds were held back again by another 2+% rise in the value of the U.S. dollar, which negatively affected both developed and emerging markets.

Commodities generally fell back a bit last week, with small gains in energy offset by price declines in agriculture, industrial metals, and precious metals. The price of crude oil fell by nearly -2% to end at $90/barrel. However, hot weather, in the triple-digits in many locations, helped push natural gas prices higher again by 6% due to air conditioning demand. This was in addition to the ongoing supply disruptions in Europe, although U.S. and European gas markets are priced distinctly due to the difficulty in arbitraging discrepancies because of gas's lack of easy portability.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.