Summary

Economic data for the week included a slight upward revision in Q2 GDP, good results from consumer sentiment and jobless claims, little change in durable goods orders, while housing data continued to show weakness.

Equity markets fell back in the U.S. and developed foreign markets, while emerging markets fared positively. Bonds pulled back due to higher interest rates across the yield curve. Commodities gained primarily due to higher prices for crude oil and grains.

Economic Notes

(0) The 2nd release of U.S. **GDP** for the 2nd quarter was revised up a bit, from the original -0.9% to -0.6%, some of which was expected. The primary driver was stronger personal consumption growth, which was revised up from 1.0% to 1.5%, and appeared to provide more evidence to economists in the 'no recession' camp. Inventory declines improved, while investment in building structures was revised downward by a few percent—further into decline. Core PCE inflation was little changed in the revision, showing a year-over-year rate of 4.7%.

In looking at the Atlanta GDPNow measure, the Q3 estimate currently stands at 1.6%. Positive contributions primarily include consumer spending and fixed investment, while declines in residential investment (housing) are pulling GDP levels down by over a percent. The Blue Chip economist forecasts also tracked by the measure range between approximately 0% and 2.5%, with a median estimate of around 1.25%. A key question about whether we're in a recession or not, with 'two negative quarters' having been met, but debate on the qualitative side remains. The evidence remains mixed, although there continues to still be a consensus tilt toward 'no recession' in the economist community.

(-) **Personal income** for July rose by 0.2%, well short of the 0.6% increase expected. This was highlighted by a 0.8% wage/salary rise offset by a drop in transfer payment receipts. **Personal spending** rose 0.1%, also short of expectations calling for 0.5%, with continued strength in services spending offsetting lower spending for goods. The personal savings rate was unchanged at an even 5.0%. Over the last 12 months, personal income and spending are up 4.6% and 8.7%, respectively. However, as these are quoted as nominal numbers, income in real terms is negative after inflation is removed, which has remained a headwind on consumers. The July **PCE price index** fell back by a rounded -0.1%, while the core index rose by 0.1%. On a trailing 12-month basis, the headline and core measures are up 6.3% and 4.6%, respectively—each falling several tenths from the prior month's pace, representing some partial good news on the inflation front.

(0/-) **Durable goods** orders in July were unchanged, falling short of an expected consensus increase of 0.8%. However, when transportation orders were removed, the result was a 0.3% increase, affected by a drop in defense aircraft and rise in commercial aircraft, as well as machinery and autos. Core capital goods orders rose by 0.5%, which was a tenth higher than expectations; core capital goods shipments were up 0.7%. These have all decelerated from the pace of the prior month. Year-over-year, durable goods orders are up 11%, and have risen to over 18% above the pre-pandemic high.

(-) **New home sales** in July fell by -12.6% to a seasonally-adjusted annualized rate of 511k units, beyond the median forecast calling for a mere -2.5% decline. Regionally, the South saw the largest decline of nearly -50k units, while the Northeast saw a slight increase. Year-over-year, new home sales are down -30%, with the measure down -50% from the Aug. 2020 peak level. The median price of a new home rose 9.2% for the month to $439,400, rebounding from June's more severe monthly downward drop. Over the trailing 12 months, the median price is still 8% higher, with the pace of deceleration slowing. Housing inventory rose to its highest level since 2009, by 1.7 to 10.9 months' supply, due to quickly deteriorating demand along with higher mortgage rates. Unsurprisingly, higher financing costs have put a damper on activity with an uncertain future path. Traditionally, economic slowdowns and recessions have proven very difficult for residential real estate, not to mention the impact of a doubling (at one point) of mortgage rates, severely affecting affordability. However, the shortage of available homes for a sizeable population of potential buyers continues to add a unique wrinkle.

(0/-) **Pending home sales** fell by -1.0% in July, which was slightly better than the -2.6% drop expected by consensus, and an improvement on the sharp decline the prior month. Regionally, the West saw a small 2% rise in pending sales, while those in the Midwest were down -3%. Year-over-year, pending sales re-decelerated down to a drop of over -22%. Of course, this bodes negatively for upcoming months' existing home sales data.

(+) The final August edition of the **Univ. of Michigan index of consumer sentiment** showed an increase of 3.1 points to 58.2, exceeding muted expectations of 55.5. Compared to the earlier report, assessments of current and future expectations both improved to the same degree. Inflation expectations for the coming year fell by -0.2% to 4.8%, while those for the next 5-10 years fell by -0.1% to 2.9%. These all appeared to be related, as the recent deceleration in inflation was noted as a driver of more optimistic sentiment across all demographic and income groups. In particular, lower gasoline prices has been an aid to sentiment historically.

(+) **Initial jobless claims** for the Aug. 20 ending week fell by -2k to 243k, below the median forecast of 252k. **Continuing claims** for the Aug. 13 week fell by -19k to 1.415 mil., which was below the 1.441 mil. level expected. Unusual rises in claims continued in MA and CT, although changes were generally minor on the positive or negative side across all other states. Despite the rise this year from extremely low levels, claims remain relatively low overall, showing no signs of mass layoffs or other labor market stress.

Market Notes

Period ending 8/26/2022	**1 Week (%)**	**YTD (%)**
DJIA	-4.20	-9.97
S&P 500	-4.02	-14.00
NASDAQ	-4.43	-21.99
Russell 2000	-2.93	-14.69
MSCI-EAFE	-1.91	-17.77
MSCI-EM	0.54	-16.46
Bloomberg U.S. Aggregate	-0.36	-10.02

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
8/19/2022	2.74	3.25	3.11	2.98	3.22
8/26/2022	2.89	3.37	3.20	3.04	3.21

U.S. stocks lost ground on net, with rising oil prices reigniting inflation concerns, unsurprising economic data, although late summer tends to feature lower volume than usual. The week ended with fears of interest rates remaining higher after Fed Chair Jerome Powell's speech at the Jackson Hole gathering—in fact, the hawkishness of the comments caused an over -3% drop in financial markets. Every sector except energy (which gained 4%) lost ground last week, led by technology and communications. Real estate also fell back by -4% upon higher interest rates.

The Kansas City Fed's annual Jackson Hole Economic Policy Symposium was highlighted by the well-anticipated speech by Chair Powell laying out the Fed's future plans. (That forum has often served as a high-profile medium by the Fed for forward guidance, new initiatives, and other public messages.) The 10-minute speech focused on explaining the importance of the Fed acting strongly enough and for long enough to battle inflation, despite possible 'pain' it may cause, and noting that failing to act with the appropriate strength would be far more painful in the long run. Notable quotes included "Restoring price stability will likely require maintaining a restrictive policy stance for some time," as well as, "The historical record cautions strongly against prematurely loosening policy," noting that any reversal to combat recession fears before inflation is contained could backfire. (This was no doubt aimed at fed funds futures markets, which had been pricing in a minor cut in 2023, after seeing rates peak around 3.50% at year-end. Now, expectations are for rates to reach the 3.75-4.00% range and hold steady.) In the meantime, Powell also noted that another 0.75% hike 'could be appropriate,' with fed funds futures continuing to point to that size of hike in Sept. by a 60/40 margin over a 0.50% hike. Other than the strength of the message, policy hasn't changed.

Another well-discussed event of the week was President Biden's announcement of partial student loan forgiveness, although this seemed to have minimal impact on financial markets or economic growth (with perhaps some marginal upward impact from cash flows being diverted from loan payments to consumption). Politically, the feedback was mixed, with estimates from several sources noting the ultimate budgetary impact being a wide range of $300 bil. to $1 tril.

Foreign stocks fell back along the same lines as U.S. equities, with concerns over central bank persistence in fighting inflation with higher rates. Europe fared worst, not helped by again-reduced Russian gas supplies over the Nord Stream pipeline, along with higher energy bills to consumers, as well as weaker manufacturing activity in the U.K. Emerging markets ended the week with a slight gain. Chinese equities fared positively, due to further announced government stimulus and cuts in several key interest rates, as did Brazil, due to tempered inflation readings.

U.S. bonds fell back a bit as interest rates rose last week, fueled by more hawkish central bank language. While investment-grade bonds were minimally changed, high yield bonds (with a higher correlation to stocks) fell back well over a percent. Foreign developed market bonds lost ground due to a stronger U.S. dollar, while emerging market debt was minimally changed.

Commodities gained across the board, with higher prices in grains, energy, and industrial metals, while precious metals lost ground slightly. The price of crude oil rose by 3% to $93/barrel, due to rumors of OPEC cutting output to sustain high prices. Wheat and corn prices gained, along with shifting expectations for production, due to the impact of North American drought predictions.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Barron's, 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.

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