

July 28, 2022

Good Morning,

We've had an abundance of financial information this week and market reaction has been rather positive. While several major corporations have missed their earnings expectations and guided lower for future quarters, investors have taken it in stride and focused on the message from the Federal Reserve Board and Q2 GDP results. Energy companies continue to show the strongest growth in profits – no surprise considering fuel and natural gas prices. Retailers (like Walmart) are beginning to report a slowdown in consumer spending and an uptick in inventory. Service companies (travel, hotels, etc.) are doing well as Americans buy less “stuff” but spend more on experiences.

As anticipated, the Fed raised the Fed Funds Rate by another .75% yesterday (to 2.5%) in their effort to slow down the economy and fight inflation. There is strong evidence emerging that global growth is slowing and it appears that markets are betting the Fed won't have to raise rates as much as previously expected going forward. The bond market, specifically, has changed course and rates have come down sharply on the 10-Year Treasury Bond. This may be a good sign that inflation has peaked. Stocks rallied very sharply on the Fed move – a counterintuitive response and perhaps an overly positive reaction. But we'll take it! The S&P 500 Index is now 10% higher than the low in mid-June. Don't celebrate yet, as there is a long way to go to get back to all square on the year.

The first estimate of Q2 GDP was released this morning and showed the US economy shrank 0.9% in the quarter. That is two quarters in a row of negative GDP, technically signaling a recession has started. However, there are a lot of components in the data, including inventory adjustments, and economists are not ready to use the “R” word, just yet. The economy is bending, but not breaking. The hope is that it can slow without coming to a stop. While a slowing economy is not great news, it will mean reduced inflation and reasonable interest rates, and markets welcome that idea.

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http://www.commonwealth.com/RepSiteContent/weekly_comm/commentary_redirect.htm

As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Enjoy your week,

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