Email Body 9-1-2022

**Where Are We at Today?**

Welcome to a hot Labor Day weekend. Summer is winding down, kids are back in school, vacations are largely over, and we are beginning to get back to work. September has historically been the stock market’s most volatile month of the year, however, the last third of the calendar year (i.e., Sept.-Dec.) is usually among the best performing periods. Let’s pray that we get a good one this year.

THE ECONOMY

We are beginning to see the effects of the Federal Reserve raising interest rates and reducing its bond portfolio by selling treasuries into the bond market. The ten-year treasury interest rate is currently at 3.15% and is just 0.20% above the three-month treasury rate. If the three-month T-rate exceeds the ten-year T-rate, that is one of the better indicators of a recession within the next two years (e.g., usually sooner). We are not there yet but a lot depends on what the Federal Reserve (e.g., and the bond market) does in the next several months.

Speaking of the Federal Reserve, Chairman Jerome Powell gave a press conference last week in Jackson Hole, WY at their annual conclave and indicated in no uncertain terms the Fed’s resolve to reign in inflation by any means necessary. The stock market’s immediate reaction was to perform a chicken little imitation and run screaming that the sky is falling. Cooler heads have prevailed, and the markets are settling in by pricing in further rate hikes of over 1.00% and pushing off expectations of future rate cuts well into the second half of 2023.

I am still of the position that if job growth remains strong, unemployment is low and interest rates remain relatively low, then a stereotypical recession is unlikely. However, I am starting to see some trends in the data I track that show the Federal Reserve’s tactics are beginning to bite. The prime rate has moved up to 5.50% and mortgage rates have almost doubled in a matter of months, significantly reducing housing affordability. On a year over year basis new and existing home sales are down 30 and 20 percent, respectively. New single family home listings are up 28% year over year and existing home listings are up 15-20% indicating builders and existing homeowners are trying to cash in on the recent run up in prices. Housing supply increasing while demand is dropping is usually a negative for the overall economy as housing makes up about 4% of GDP. Get ready for home values to decline more.

Job growth is still strong with blow out numbers in July and another 300k-400K expected for August. Unemployment remains low and unfilled job listings have increased by another 500K since last month indicating that the job market remains tight. In July durable goods orders rose less than expected but still indicate solid business investment. Personal income and consumer spending continued to grow although less than expected. Consumer confidence as measured by the Conference Board rose higher than expected and represents the first increase in four months. The ISM Manufacturing index increased despite expectations of a drop.

Overall, the economy is still on-track to grow for 2022, despite the first two calendar quarters. I will re-iterate; a lot depends on what the Federal Reserve does in the next several months. All indications are they are dead set on reducing aggregate demand down to supply capacity to alleviate inflation. The question is will they over do it and take us into a recession. Time will tell.

Make sure that funds you know you will need in the short-term are safe to relatively safe from volatility and that your long-term oriented investments are well diversified and subject to risk and volatility levels you are able to be comfortable with. If you have any questions or concerns about these things, please call me to discuss them further.

I have included an attachment written by Brad McMillan where he discusses his take on Chairman Powell’s comments and the market’s reaction. It is an interesting read and I generally agree with it. Brad is managing principal and chief investment officer at Commonwealth Financial Network®, where he chairs the Investment committee and is the primary spokesperson for the firm’s investment divisions. Check out the attachment to this email.

I am always available to you via phone, zoom conference or in person. I look forward to talking with you over the next few weeks. If you have any questions or if we can be of any help, please do not hesitate to contact Linda or me.

*Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Past performance is not indicative of future results.*

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