



JULY 2022

Monthly Commentary

- » Equities Rebound
- » GDP Contracts in Q2
- » Oil Prices Slide

July provided investors some relief, as performance was very positive during the month for domestic equity markets. The S&P 500's monthly return of more than 9% shaved off nearly half of its 2022 bear market decline. The same was true for the Russell Midcap and Russell 2000 Indexes, rising more than 9% and 10% respectively. All the S&P sectors climbed higher in July, with technology stocks leading the rebound.

RECESSION?

GDP contracted -0.9% in the second quarter, making it the second consecutive quarter of negative growth for the U.S. economy after the first quarter declined -1.6%. Historically, two consecutive quarters of contracting GDP was an unofficial-but-accepted consensus definition that economists would use to signal that a recession had occurred. Officially, the National Bureau of Economic Research, a nonpartisan committee of eight economists, determines when recessions begin and end by reviewing other data besides just GDP. They review a myriad of additional statistics like job creation, wage growth, consumer demand, etc. The NBER helps determine this event by providing a more comprehensive assessment of how the economy was impacted, rather than looking at one data point.

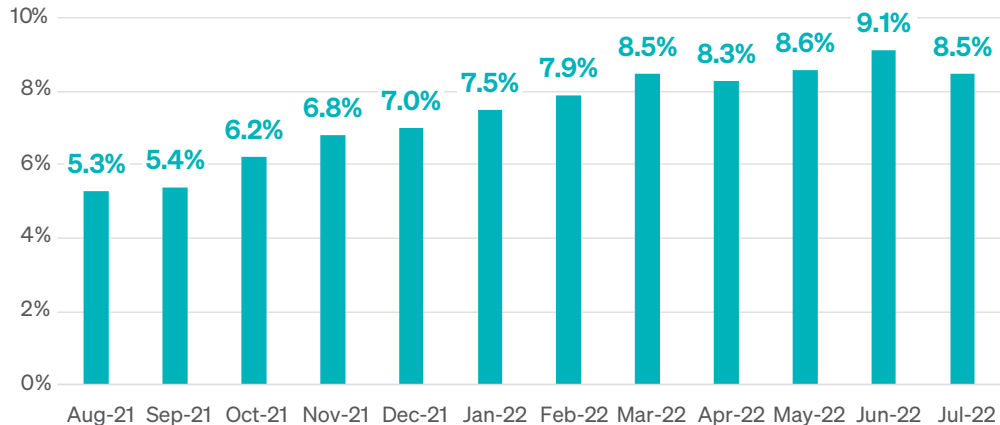
ISM CONTINUES TO EXPAND

Domestically, the U.S. continued to show signs of strength, as the ISM Manufacturing PMI index reached 52.8 in July. This was down from a level of 53 in June but exceeded expectations of 52. On the services side, ISM Non-manufacturing PMI printed a 56.7 reading compared to consensus estimates of 53.5. This surprising increase showed better production and higher levels of new orders. An index reading above 50 shows that these indexes expanded while a number below 50 signals a contraction.

INFLATION

Inflation continues to create financial challenges for Americans. The increase in prices is also leading to an increase in the amount that Americans are borrowing. In fact, credit card balances increased 13% over last year. This contributed to an increase in U.S. household debt which now exceeds \$16 trillion for the first time in history.

U.S. ANNUAL INFLATION RATE



SOURCE: US BUREAU OF LABOR STATISTICS

Year over year core inflation was 9.1% in June, spurring the Fed to raise the Fed Funds target rate by 0.75% on July 27, making it the second consecutive hike of 0.75% and the fourth increase overall in 2022. This increased the Federal Funds Target Rate range to 2.25%–2.50%. July's annual inflation rate slowed to 8.5% which was below market expectations providing optimism that maybe the worst of the inflation scare is behind us. Weakening global demand from areas in China and Europe and outbreaks of COVID-19 continue to play a significant role in factory productivity and global growth expectations. This contributed to oil trading down in July from \$105 to \$94/bbl providing some relief for U.S. consumers continuing to battle with inflation.

WHAT WILL THE FED DO NEXT?

The labor market has been resilient. Nonfarm payrolls increased by 528,000 in July compared to estimates of just 258,000. This was the largest increase in jobs since February and the unemployment level also ticked down from 3.6% to 3.5%. The Fed meets again in September and a strong payroll number suggests that maybe there is a greater likelihood of a “soft-landing” for this economy to handle the rate increases without falling into a recession, as previously thought. Currently, market expectations continue to price in the expectation of another 0.75% hike at the September meeting, with many participants expecting only a 0.50% hike after inflation showed some signs of slowing last month.



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