OBSERVATIONS

- The S&P 500 traded up three of four trading days last week and finished up +1.9%, marking last week as one of the only nine weeks—exactly 1/3 of the total—this year where the S&P finished positive for the week.[1]
- ISM PMIs for both Services (55.3%) and Manufacturing (53.0%) declined in June compared to their May readings (55.9% and 56.1% respectively), but remained above 50% mark—indicating that both the US service sector and manufacturing sector are growing.[1]
- US heavy truck sales were 475,000 (seasonally adjusted annualized rate) in June down slightly from the 491,000 sales rate in May, but well above a 400,000 sales rate—a level that has previously been a leading indicator of four of the past six US recessions dating back to 1980.[2]
- The US trade deficit declined in May to $85.5 billion as US exports increased by $3 billion over April's level while imports increased only $1.9 billion.[3]
- The BLS survey on job openings and labor turnover from May continues to show the strength of US labor market. Job openings decreased to 11.3 million-down marginally from April's 11.7 million figure—but there remains nearly 1.9 job openings for every American that is currently unemployed.[4]
- Similarly, the June jobs report indicated that 372,000 jobs were created last month—well above the consensus estimate of about 270,000 jobs—while the unemployment rate remained at 3.6%.[4]
- Former Japanese Prime Minister Shinzo Abe was assassinated while campaigning for his party last Friday.[5] After the shooting, the Japanese stock market gave up its early gains to finish the day largely unchanged.

EXPECTATIONS

- The CoreLogic Housing Price Index showed that housing prices softened modestly in May from April, but still showed a 20% increase year-over-year. CoreLogic predicts that increasing mortgage rates and increasing supply are likely to cause price increases to further decline throughout the remainder of 2022.[6]
- UK Prime Minister Boris Johnson resigned last week amid a scandal involving misleading the public and his own party about what he knew regarding the appointment of a government official who was linked to several sexual misconduct allegations. Johnson is likely to remain in a caretaker role until his Conservative Party nominates a new leader of their party, a process that is likely to take several months.
- The Atlanta Fed GDP Now—a real-time indicator of economic activity—moved lower the entire second quarter. Earlier in the quarter it was signaling the US economy was growing at 2% annualized rate, but this figure moved to 1% in early June and close to zero by the end of the month.[7]

ONE MORE THOUGHT: FOMC Minutes Confirm Fed Hawkishness[8]

The minutes from the mid-June Fed meeting underscored the central tension in US equity and fixed income markets—namely will the Fed be more focused on fighting inflation or avoiding a potential recession in 2023 due to

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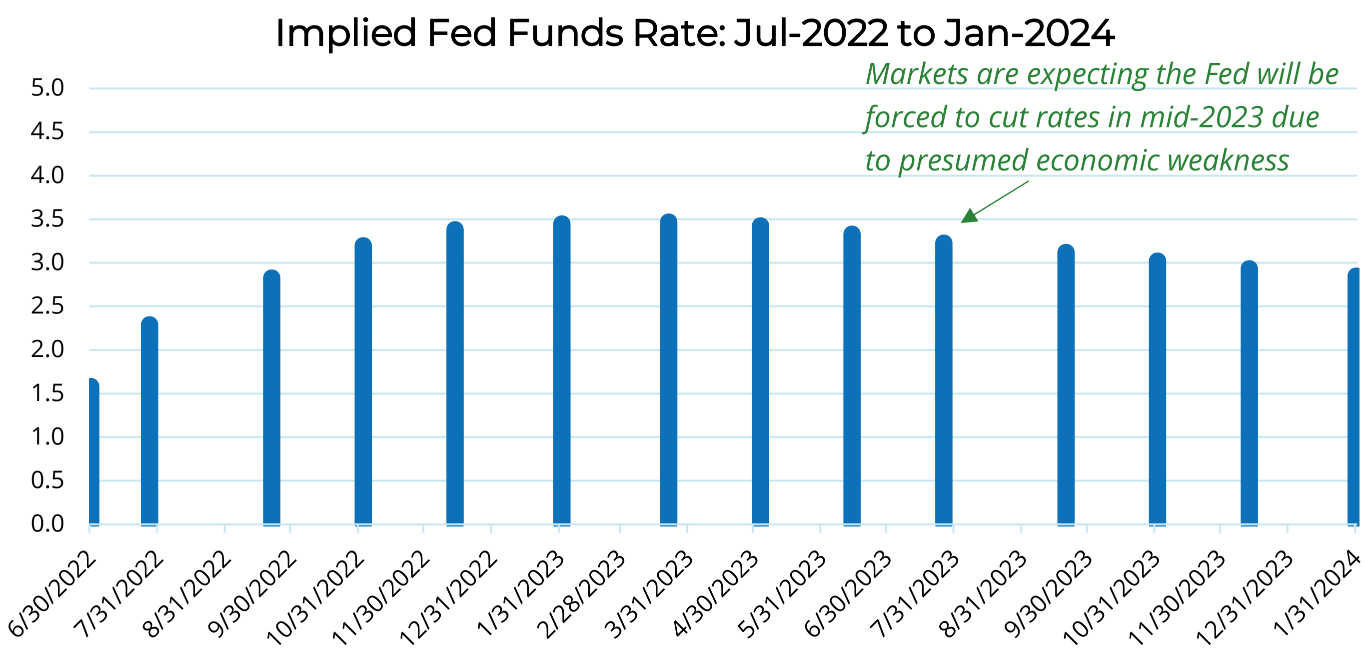
1 *Bloomberg LP, 8-Jul-2022*
2 *BEA Auto and Truck Unit Sales, Production, Inventories, Expenditures, and Price, 5-Jul-2022*
3 *https://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf*
4 *https://www.bls.gov/news.release/jolts.nr0.htm & https://www.bls.gov/news.release/empsit.nr0.htm*
5 *https://www.wsj.com/articles/shinzo-abe-former-japanese-prime-minister-collapses-during-a-speech-11657250233*
6 *https://www.corelogic.com/press-releases/corelogic-data-national-home-price-gains-continue-to-exceed-20-in-may/*
7 *https://www.atlantafed.org/cqer/research/gdpnow*
8 *https://www.federalreserve.gov/monetarypolicy/fomcminutes20220615.htm*

overly aggressive rate hikes. The minutes show that the committee was "highly attentive to inflation risks" and that most "agreed that risks to inflation were skewed to the upside and cited several such risks, including those associated with ongoing supply bottlenecks and rising energy and commodity price." The minutes also show that most Fed officials "assessed that the risks to the outlook for economic growth were skewed to the downside." Nonetheless the Fed minutes make clear the Fed, as a whole, is more focused on fighting inflation and worried of the risk that "elevated inflation could become entrenched" if the public began to question if the Fed was truly committed to taming inflation. In light of this and the relative strength of the US economy the Fed "concurred that the economic outlook warranted moving to a restrictive stance of policy, and they recognized the possibility that an even more restrictive stance could be appropriate if elevated inflation pressures were to persist." In short, the Fed discussion shows that fighting inflation is the more important battle than worrying about a possible slowdown or recession in 2023.

CHART OF THE WEEK



Source: Bloomberg WIRP – Fed Fund Futures Contracts

Markets are currently expecting the Fed to hike rates to approximately 3.5% by February-2023 and maintain that level through the Spring. However, markets are already pricing in an expected rate cut in mid-2023 as markets anticipate a slowing economy will lead the Fed to ease monetary conditions.

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