

OBSERVATIONS

- Despite Wall Street's expectations for earnings to grow near +10% as compared to 2021, company executives continue to worry about economic growth. So far this earnings season, executives are mentioning words and phrases related to "economic slowdown" at roughly 3 times the rate used in Q1.¹
- The recent decline in the 10-year U.S. Treasury yield (from nearly 3.5% to almost 2.5% last week) drove the average 30-year fixed rate mortgage down by 0.4% to 5.4% over the recent two-week period as of July 29. That is the largest two week decline since 2008.²
- The Bank of England raised its policy rate by +50bps last week—the largest hike in 27 years—as its internal inflation forecast indicates that UK headline inflation will likely hit 13% year-over-year by the of 2022.³
- Construction spending fell in June by -1.1% from the May figure. Residential housing declined -1.6% from May's figure, while both private non-residential construction and public construction fell by only -0.5%.¹
- Wards, auto-industry consultancy, released their estimates for US light-vehicle auto production for July which showed a small increase to 13.35 million vehicles—seasonally adjusted annualized rate. The industry continues to be hampered by supply-chain constraints and vehicle inventories at most auto dealerships remain depressed. Ward's analysis suggests that demand for new cars would readily support more than 16 million cars produced annually.⁴
- The visit of House Speaker Nancy Pelosi to Taiwan—the highest profile US visit to the island since the late 1990s—has left Beijing fuming, ratcheted up tension in the region, and dealt a fresh blow to US-China relations.¹

EXPECTATIONS

- In response to the U.S. administration's efforts, OPEC+ lifted production by a measly 100k barrels per day. In percent terms, the quota increase is the smallest ever in the cartel's history. Regular gasoline average prices, meanwhile, are \$4.16 per gallon, \$0.86 lower than the mid-June record of \$5.02.⁵
- Senate Democrat's Inflation Reduction Act, which is touted to raise about \$740 billion over a decade in new revenue as well as provide for about \$430 billion in new spending—mostly earmarked for climate and energy programs including incentives for electric cars, seems likely to be realized this week. The lone Democratic Senator hold out, Kyrsten Sinema, signaled her support for the bill last week—without any Republican votes, Democrats need all 50 Democratic senators to back the bill—after she was able to secure concessions on a few of the taxation increases included in the bill.⁶ Senate passage of the bill via the reconciliation process—a Senate procedure designed to skirt any Republican filibuster—took place over the weekend, and the House is likely to pass the bill this Friday (12-Aug).

ONE MORE THOUGHT: *US economy continues to add jobs at a robust pace*⁷

The US labor market remains hot. The July jobs report showed 528,000 new jobs were created last month and the unemployment rate declined to 3.5%. Labor force participation rate declined marginally to 62.1%, but this may be

¹ Bloomberg LP

² Mortgage Bankers Association, Bloomberg LP

³ <https://www.ft.com/content/571dbb52-971f-49e5-9159-3bc73b497742>

⁴ <https://wardsintelligence.informa.com/WI966588/July-US-LightVehicle-Sales-Give-Small-Boost-to-Struggling-Market>

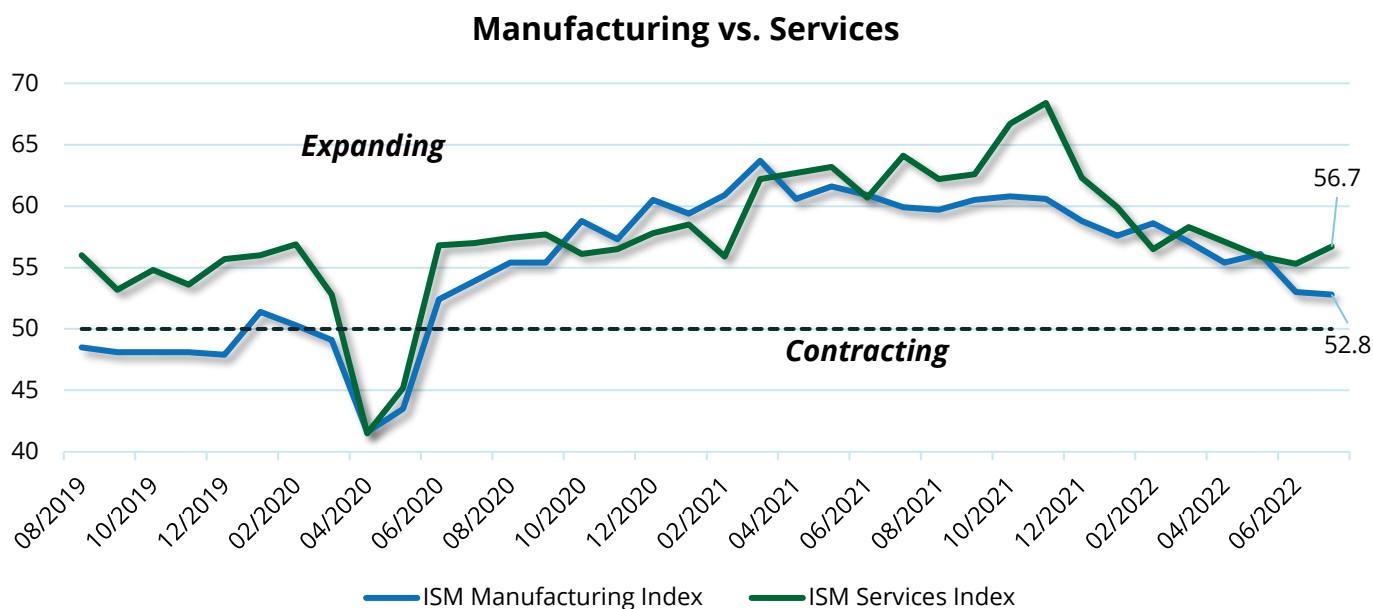
⁵ https://www.wsj.com/articles/lower-gas-prices-threatened-by-fuel-makers-limitations-11659706686?mod=Searchresults_pos1&page=1

⁶ https://www.wsj.com/articles/kyrsten-sinema-gop-fuel-fears-for-fate-of-democrats-climate-plan-11659618001?mod=hp_lead_pos11

⁷ <https://www.bls.gov/news.release/empsit.nr0.htm>

due to a spike in Covid cases that have caused some workers to postpone searching for a job. The report also showed that the long term unemployed — those out of work for at least six months — has reached pre pandemic levels of 1.07 million people. The strong jobs report, which also showed positive revisions to May and June’s job numbers, make it more likely the Federal Reserve will continue to hike rates aggressively at their next meeting in September. While there will be another jobs report (August jobs) and two readings of inflation (July and August CPI) before the Fed meets again, markets quickly priced in elevated probability of a 75-basis point increase in September as well as another 25-basis point increase in November. The Fed’s annual Jackson Hole summit in late August will be a key event for the Fed to level-set expectations for the Fall. Nonetheless, as summer trading volumes ebb, there is a heightened chance that there will be several weeks where good news regarding the fundamentals of the real economy could spell trouble for US equities.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of August 3, 2022

Manufacturing vs. services, the rebalancing continues: The Institute for Supply Management’s (ISM) services index rose to a three-month high of 56.7. That figure contrasts against the recent ISM manufacturing index, which was near two-year lows amidst production declines, higher inventories, and slowing new orders.

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