OBSERVATIONS

- U.S. natural gas futures reached $10/million Btu last week, the highest level since 2008, as concerns grow over lower than usual inventories with winter demand around the corner.[1]
- The Euro continued to weaken against the US$ as European natural gas prices surged to all-time highs. Natural gas prices are trading over $90/million Btu—over 9 times higher than prices in the US.[2]
- August Purchasing Manager Indices (PMI) for the broader Eurozone continue to suggest economic weakness across the region as the composite index fell to 49.2 from July's 49.9 reading (readings below 50 are indicative of a contracting economy).[3]
- Sales of new houses in July fell 12.6% on a month-over-month basis to a seasonally adjusted annualized unit rate of 511k (below estimates), the slowest rate since January 2016. Meanwhile, inventories of new houses reached nearly 11 months' worth of supply, the highest since 2009.[1]
- Shipping container rates have now fallen over 40% since reaching its peak, nearly one year ago. Similarly, the average rate per mile for trucking transportation has also fallen over the same period.[1]
- U.S. GDP estimate for Q2 GDP growth was revised upwards but still showed the US economy contracted marginally (-0.6% annualized) in the March-June quarter.[4] The third and final estimate of Q2 GDP growth will be released in late September.
- US core PCE—the Fed's preferred gauge of inflation—increased 0.1% in July from June, which was below expectations. The core-PCE year-over-year (YoY) figure also declined to 4.6% in July from 4.8% YoY in June.[5]

EXPECTATIONS

- Fed Chairman Jerome Powell used his Jackson Hole keynote address to guide markets as to the Fed's current thinking on inflation, which underscored the Fed's intent to act decisively to bring down inflation consistent with Fed's goal of 2% inflation and reinforced the idea that fed fund rate would approach 4% and stay at that level for an extended period. Markets expect about a 75-basis point increase in September.[1]
- President Biden announced last week an executive order that will allow up to $10,000 in student loan forgiveness—for individuals making less than $125,000 or households with incomes under $250,000. For some individuals the amount of loan forgiveness could be as high as $20,000. The Department of Education will likely issue guidance to individuals in terms of applying for this new initiative, but it is all but certain to be challenged in court in the coming weeks which could leave millions in limbo as the issue works its way through the courts.[6]

ONE MORE THOUGHT: *Midterm Election Years Typically Feature Heightened Volatility and Backloaded Gains*[7]

As we head into the Fall mid-term election season, many investors may be asking themselves how might the upcoming elections impact the markets? Research on this topic is relatively sparse, but there are few key highlights that emerge from academic studies as well as direct analysis of market data. First, mid-term elections years feature heightened volatility compared to non-midterm years and this additional volatility is probably due to heightened

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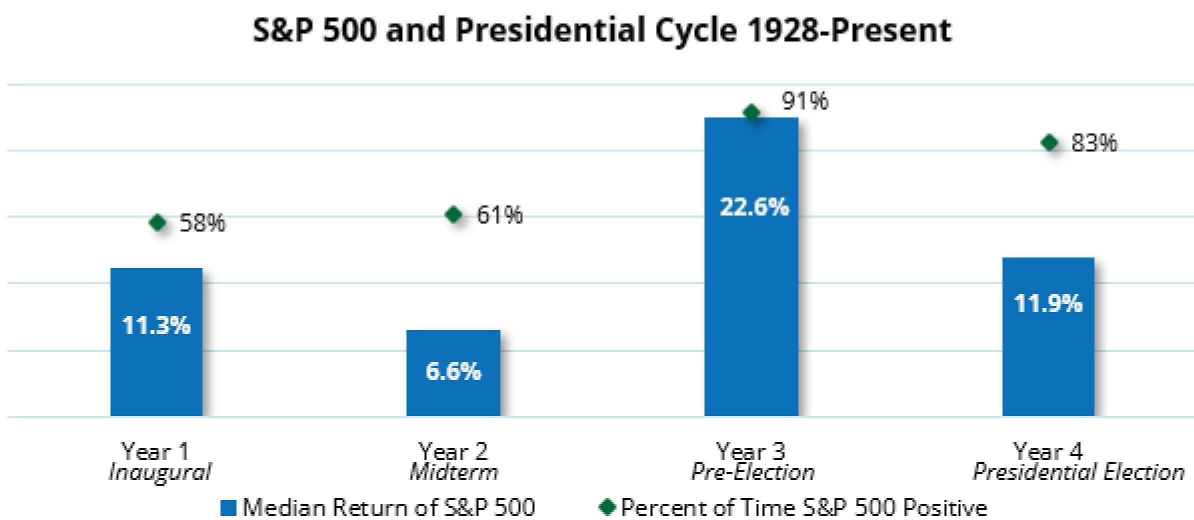
[1] *Bloomberg LP*
[2] *https://www.wsj.com/articles/facing-russian-gas-cuts-europe-dims-lights-cools-pools-and-shortens-showers-11660132190*
[3] *Oxford Economics, Data Insights, August 23, 2022*
[4] *https://www.bea.gov/news/2022/gross-domestic-product-second-estimate-and-corporate-profits-preliminary-second-quarter*
[5] *https://www.bea.gov/index.php/news/2022/personal-income-and-outlays-july-2022*
[6] *https://www.wsj.com/articles/biden-to-announce-student-loan-forgiveness-plan-11661331600?mod=hp_lead_pos1*
[7] *"Asset Prices, Midterm Elections, and Political Uncertainty" Journal of Financial Economics, Chan & Marsh, July-2021*

policy uncertainty. In the 19 midterm elections since WWII the President's party has lost seats in the U.S. House of Representatives in 17 of them. In addition, in eight of those 17 cases—just under half—the lost seats caused the flip of either one of the houses of Congress from the incumbent president's party to the party not controlling the presidency. Given these stakes, it is not surprising that academics find that policy uncertainty rises in the three quarters leading up to midterms, which is typically associated with restrained corporate investment and low or negative stock returns—although these same studies generally find the state of the U.S. economy is a larger driver of corporate and investor activity than measures of political uncertainty. However, once the midterm election is over—or the polls front-running the vote make the outcome clear—measures of policy uncertainty quickly fade and U.S. markets typically trade higher. In fact, examining the post WWII midterms through 2018, the U.S. stocks perform extremely well in the fourth quarter of a midterm election year as well as the subsequent quarters—on average: 7.4%, 7.7%, and 5.5% return per quarter, respectively. Conversely, the three quarters preceding a midterm are generally on par or weaker—midterm years average 1.9% for Q1, -0.9% for Q2, and 0.4% for Q3—compared to non-midterm year averages of 1.4%, 3.9% and 1.2% for Q1, Q2, and Q3 respectively. For the long-term investor, the volatility leading up to the midterm election provides an opportunity to rebalance into their target weights for equities and ready their portfolios for the pre-election year of the presidential election cycle—which typically is the best for equites—see Chart of the Week (below).

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of Aug 23, 2022, Election cycles from 1928-2022, S&P 500 annual total return

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