



INCISIVE INVESTOR

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WEEK IN REVIEW

STOCKS BOOK ANOTHER WEEK OF LOSSES

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All three major U.S. stock benchmarks booked another week of losses

Losses in the U.S. stock market were deepening heading toward the closing bell after Federal Reserve Jerome Powell said the central bank will continue its battle against inflation “until the job is done” of getting the cost of living back to its 2% target.

The Dow Jones Industrial Average DJIA plunged almost 970 points, or 2.9%, to 32,316. The S&P 500 SPX dropped almost 132 points, or 3.2%, to about 4,065. The Nasdaq Composite COMP tumbled almost 474 points, or 3.8%, to 12,165.

For the week, the Dow is heading for a drop of 4%, while the S&P 500 is on track to slide 3.8% and Nasdaq is on pace to lose 4.3%, FactSet data show, at last check.



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Powell cautions against premature loosening

In his brief speech on Friday morning, Fed Chair Powell kept his message simple: Restoring price stability will likely require maintaining a restrictive policy stance for a long time, and historical evidence cautions against prematurely loosening policy. Recently, markets anticipated sharp rate hikes but also expected rates to fall back from their peak quite quickly as the economy slowed. On Friday, Powell slammed that notion. While he welcomed the improved July inflation figures, the FOMC still needs more evidence before it is confident that inflation is declining. Powell acknowledged that there will be pain for some households and businesses when interest rates rise, growth slows, and the labor market softens. These are the unfortunate costs of reducing inflation.

Investors left guessing due to mixed data

Purchasing managers' indices for August painted a grim economic picture as the composite index plunged to 45 from 47.7 in July. New home sales fell 12.6% in July from June due to higher mortgage rates and higher prices. The median price of a new home in the US rose 8.2% from a year earlier, to \$432,000. A bright spot was the continued decline in initial jobless claims.

Since reaching a peak seven weeks ago, the data, historically a leading indicator of recession, have eased modestly. A rise in orders for durable goods was another encouraging development. After excluding defense and aircraft orders, orders increased 0.4% in July. According to an annual benchmark revision to data from the US Department of Labor, 462,000 more jobs were added to payrolls during the year through March, nearly 39,000 more each month than previously reported. The US GDP for Q2 was revised from -0.9% to -0.6%. In Q2, consumer spending grew by 1.5% annualized, up from an initial estimate of 1%. During the period, US nonfinancial corporate profit margins increased to 15.5% from 14% in Q1. Thus far, companies have been able to pass on rising input costs to consumers, which is the most since 1950.

Biden forgives some student debt

On Wednesday, President Biden announced a plan to forgive up to \$10,000 in student loan debt for those earning less than \$125,000 and up to \$20,000 for Pell Grant recipients. Furthermore, he will extend the student loan repayment moratorium, which has been in effect since March 2020, until the end of the year. Several have questioned the program's impact on inflation and the president's authority to pass on loan costs to taxpayers. The Wall Street Journal estimates the cost of loan forgiveness and forbearance at \$500 billion.

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HEADLINERS

The core personal consumption expenditures price index, the Fed's preferred inflation measure, eased to 4.6% in July from 4.8% in June. In February, core PCE peaked at 5.3%, well above the Fed's 2% target.

Without supply chain bottlenecks, inflation at the end of 2021 would have been 6% instead of 9%, according to a Federal Reserve Bank of New York study.

According to the Wall Street Journal this week, US and Chinese regulators are close to reaching an agreement that will allow more than 200 Chinese companies to transfer their audit papers from mainland China to Hong Kong, where US regulators can inspect them. These firms could retain their US listings if an agreement is reached.

The White House announced \$3 billion in military aid to Ukraine on Wednesday, Ukraine's Independence Day.

According to a National Association of Business Economists survey, economists are not confident that the Fed can reduce

inflation without triggering a recession. In total, 73% of respondents say they are "not very" or "not at all" confident that the Fed will stay out of recession.

MAJOR STOCK MOVES

Electronics Arts Inc. EA shares rose 3.7%, even after reports denied earlier rumors about a potential deal with Amazon.com Inc. AMZN.

Shares of Dell Technologies Inc. DELL fell almost 14% after executives said the end of the pandemic-driven PC sales boom appeared in the second quarter. Revenue fell short of analysts' expectations.

Gap Inc. GPS shed 1.7%, erasing earlier gains that had followed an earnings report that slightly beat Wall Street expectations.

Meta Platforms Inc. META was down around 4% as mega-cap 'FAANG' names declined following Powell's hawkish remarks.

Amazon dropped more than 4%, while Apple Inc. AAPL fell slightly more than 3% and Netflix Inc. NFLX slid 4.2%.



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TAX RULES WHEN SELLING YOUR HOME

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