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INCISIVE INVESTOR

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WEEK IN REVIEW

STOCKS SUFFER A WEEK OF LOSSES

IN THIS ISSUE

- **Fed: Rates raised quickly, higher longer**
- **Fed policy hurts US housing market**

U.S. stocks closed sharply lower Friday, with the Dow Jones Industrial Average ending at its lowest closing value since November 2020. All three major benchmarks suffered another week of losses as bond yields rose in the wake of the Federal Reserve's interest rate hike on Wednesday.

The Dow Jones Industrial Average DJIA shed 486.27 points, or 1.6%, to close at 29,590.41. The S&P 500 SPX dropped 64.76 points, or 1.7%, to finish at 3,693.23. The Nasdaq Composite slid 198.88 points, or 1.8%, to end at 10,867.93.

For the week, the Dow dropped 4% while the S&P 500 slid 4.6% and the Nasdaq tumbled 5.1%, according to Dow Jones Market Data. All three major indexes declined for a second straight week.

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Fed: Rates raised quickly, higher longer

Fed Chair Jerome Powell offered more than markets expected Wednesday, as he said that the rate hikes the Fed has planned will be sufficient to restore price stability. In its Summary of Economic Projections, the Federal Open Market Committee outlined a hawkish path for rate hikes, taking the policy rate to 4.6% in 2023 and keeping it there. Also on the FOMC's forecast, the unemployment rate is expected to rise by 0.7%, which is significant since historically, a rise of 0.5% in unemployment rates has led to recessions. During his post-meeting press conference, Powell reiterated that inflation is more likely to become entrenched the longer it stays high. Having learned from the costly mistakes of the 1970s, he also emphasized the importance of not cutting rates prematurely. Powell said lowering inflation will take a sustained period of below-trend growth and some softer labor markets. In such a combination, a recession is often the result, and the Fed chair admitted it'll be hard to avoid. It may be necessary to correct the housing market to balance supply and demand, Powell admitted. Overall, this is a very sobering message for markets.

Following the FOMC meeting, US yields have risen, reaching their highest level since 2007 with the two-year Treasury note yielding 4.20%. Also increasing is the benchmark 10-year note reaching 3.82%, its highest level since 2011. The Dollar index reached a 20-year high after the Fed met, adding to recent gains.

Fed policy hurts US housing market

This week, Freddie Mac's 30-year mortgage average hit 6.29%, the highest reading since 2007, further depressing an already sagging sector. For example, the National Association of Homebuilders Market Index fell for the ninth consecutive month this week, to 46 from 84 at the start of the year. Despite a rise in multifamily housing in August, existing home sales fell for a seventh consecutive month. For a second month running, the median sale price for an existing home in the US fell to $389,500, compared to $413,800 in June.

HEADLINERS

Risky assets continue being weighed down by soaring US real yields. On Friday, the 10-year TIPS real yield reached 1.36%, its highest level since 2010.

President Joe Biden told 60 Minutes last Sunday that the US would defend Taiwan if China attacked it and that he would block US investment in China if Beijing supported Russia against Ukraine. In addition, Biden declared the pandemic over.

After two negative quarters to start the year, the Federal Reserve Bank of Atlanta's GDPNow model forecasts the US economy will grow by only 0.3% in Q3.

According to the Wall Street Journal, European manufacturers are shifting production to their US operations due to prohibitively high energy prices in Europe.

US weekly jobless claims remain near a four-month low, signaling labor market strength.

In August, the Conference Board's index of leading indicators rose to -3 from a downwardly revised -5 in July.

As the US services sector bounced back, the US composite unexpectedly rose to 49.3 in September from 44.6 in August.

At -0.47%, the 2-year/10-year Treasury yield curve is at its most inverted level since 2000. A 2-year note yield of around 4.19% is the highest since September 2007.

MAJOR STOCK MOVES

Costco Wholesale Corp. COST shares dropped 4.3% after delivering Q4 results late Thursday. The wholesale retailer said it's seeing higher freight and labor costs and reported operating margins slightly below consensus expectations.

Shares of Chevron Corp. CVX tumbled 6.5% and Boeing Co. BA fell 5.4%, dragging down the Dow as two of the worst performers in the index Friday.

FedEx Corp. FDX shares slid 3.4% after the company announced cost cuts and increases in shipping rates one week after withdrawing its outlook, which had caused its shares to tank and even hurt stocks more broadly.

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TIMES YOU SHOULD TALK TO A PRO

Life happens fast, and your finances can take a backseat if you're not careful. Is it time to check in with a financial professional? This [infographic] will help you examine your own financial situation and decide if it's time to step up your financial game.

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Do you have questions about your finances, the market, or the economy?

Park 10 Financial has the knowledge and expertise to answer all of your concerns.

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