



INCISIVE INVESTOR

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WEEK IN REVIEW

STOCKS CLOSE SHARPLY HIGHER AFTER RETAIL SALES REPORT

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U.S. stock indexes closed sharply higher Friday, with the S&P 500 and Dow Jones Industrial Average each snapping a five-day losing streak, after stronger-than-expected retail sales data and a moderation in inflation expectations.

A mixed batch of bank earnings also helped propel financial stocks higher, but all three major stock indexes still booked weekly losses.

The Dow Jones Industrial Average DJIA jumped 658.09 points, or 2.1%, to close at 31,288.26, snapping a five-day losing streak. The S&P 500 SPX gained 72.78 points, or 1.9%, to finish at 3,863.16, also snapping five straight days of losses. The Nasdaq Composite COMP advanced 201.24 points, or 1.8%, to end at 11,452.42, booking gains for a second consecutive day.

For the week, the Dow booked a small weekly loss of 0.2%, while the S&P 500 slipped 0.9% and the Nasdaq fell 1.6%, according to FactSet data.



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Officials downplay probabilities of full-point hike

Investors had nearly priced in a 100-basis point rise in the fed funds rate at the July 27th meeting of the Federal Open Market Committee before several committee members suggested a 0.75% hike might be more appropriate after June's larger-than-expected rises in consumer and producer prices. There is approximately a 40% chance of a full-point hike as of Friday morning. Investors are doubting their assumption that inflation is close to a peak given the broad-based nature of the inflation surge which extends far beyond just food and energy. This week, equity markets were undermined by the prospect of rapid rate hikes, and yield curves were dramatically flattened as a result. Two-year/10-year yields inverted more deeply after the CPI report, to -21 basis points on Friday morning, after falling as far as -27 basis points. Furthermore, commodities weakened amid global growth concerns, while the US dollar index reached a 20-year high at midweek due to wider interest rate differentials and global risk aversion supported the greenback versus a basket of currencies.

Recession fears, inflation expectations ease



Among US consumers, inflation expectations fell to 5.2% from 5.3% over a one-year horizon and to 2.8% from 3.1% over a five-to-10-year horizon on Friday morning as measured by the University of Michigan consumer sentiment survey. The Fed will likely take comfort in the modest decline in inflation expectations with concerns about untethered inflation expectations. Meanwhile, US retail sales rose a better-than-expected 1% in June, with core sales up 0.8%. This, combined with an upbeat Empire State Manufacturing index (+11.1 versus -2 expected), raises the chances of the Fed raising interest rates.



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HEADLINERS

Bloomberg News reported on Thursday that China is preparing a 1.1 trillion dollars of infrastructure to boost economic growth.

According to SEC Chair Gary Gensler, he is not confident that an audit report-sharing agreement can be reached with Chinese regulators.

In its Beige Book, the Fed projects that if the economic growth is modest, the future GDP growth will remain mostly negative. The report noted a clear deceleration in housing demand due to negative real income growth. According to the report, prices increased substantially across all Fed districts.

Weekly jobless claims rose to 244,000, up nearly 80,000 from the cycle low. Recessions typically follow claims rises of more than 100,000 from their lows within a few months.

Former US Department of Treasury official Michael Barr was confirmed as Fed vice chair for supervision by the US Senate. For the first time in nearly nine years, the seven-member Board of Governors is fully staffed.

On Thursday, the Fed's inspector general issued a report clearing Chair Jerome Powell and former Vice Chair Richard Clarida of any wrongdoing regarding trading in their personal accounts during the early days of the pandemic. The former presidents of the Federal Reserve Banks of Boston and Dallas are under continuous investigation.

As sales slowed, Redfin reported that in June, US home supplies rose for the first time in three years.

US Senate Democrats were hoping for a slimmed-down climate and energy package this week, but Senator Joe Manchin (D-WV) said he couldn't support the legislation due to inflation concerns.

During his visit to Saudi Arabia on Friday, US President Joe Biden met with Crown Prince Mohammed bin Salman to encourage the Saudis to increase oil production.

MAJOR STOCK MOVES

Citigroup C was the best performing stock in the S&P 500 index Friday, surging 13.2% after its earnings report, according to FactSet data. Shares of Wells Fargo & Co. WFC jumped 6.2% after announcing its quarterly results.

Financial stocks propelled the S&P 500 higher, with Bank of America Corp. BAC rising 7%, State Street Corp. STT gaining 9.7%, and Bank of New York Mellon Corp. BK climbing 7.3%.

UnitedHealth Group Inc. UNH shares rallied 5.4% after the company's profits exceeded \$5 billion during the second quarter.

Pinterest Inc. PINS shares soared 16.2% on reports that Elliott Management, a large activist investor, had taken a stake in the social-media player.

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GETTING A HEAD START ON COLLEGE SAVINGS

[Here are a few strategies](#) that may help you prepare for the cost of higher education.

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

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