August 5, 2022

Dear Client,

What to Make of Last Week's Financial News

We've been keeping a close watch on financial news this past week, and there has been a lot to cover – let's review some of the highlights.

Indicators we are continuing to watch…

The Fed raised short-term rates by 0.75%, bringing its target range from 2.25% to 2.50%. Increased rates hit consumers with higher costs for mortgages, auto loans, and credit cards. The Fed's goal is to slow demand in an attempt to bring down consumer prices.

We recently saw that GDP shrank at a 0.9% annual rate this past quarter, on top of a 1.6% contraction in the first three months of the year. It was the second-consecutive quarter of negative economic growth, meeting the technical definition of a recession. Unlike past recessions, hiring has been strong all year, with the unemployment rate near historic lows.

Indicators that are potentially trending in the right direction…

Despite the negative headlines, there are some positive signs out there.

The Fed is making up for its late start in combating inflation – and that's good. Markets rose after the Fed's move and Chairman Powell's comments. In fact, some sophisticated investors using advanced trading tools are betting that the Fed will be cutting rates by June 2023.

The price of oil has come down recently, which has been reflected in lower prices at the pump. Cheaper gas will benefit consumers and businesses and may be reflected in the next month's inflation reading from the Consumer Price Index.

Employment remains strong, with unemployment holding steady at 3.6% for the past four months. Employers continue to hire, and job openings still far outpace the number of people looking for work. Today, the jobs report indicates that unemployment has fallen to 3.5%, the pre-pandemic level. Employers added 528,000 jobs in the month of July, fully recovering the roughly 22 million jobs lost during the first few months of the pandemic in 2020.

Overall stock market valuation also merits some consideration. According to a July 29 report by FactSet, the forward 12-month P/E ratio for the S&P 500 is 17.1. That's below the 5-year average

of 18.6 but above the 10-year average of 17.0. FactSet explained the forward 12-month P/E ratio of 15.8 was recorded at the end of the second quarter (June 30).

Staying the course …

In July, the Standard & Poor's 500 index rose 9.11%, while the Nasdaq Composite picked up 12.35%. Is this a bear-market rally? Or the start of the bottoming process? It's hard to tell. There's plenty out there to justify either the bull or bear case.

As I've been saying all year, I encourage you to continue following the financial strategy we've established. I'm here to help you make sense of all this news, so please give me a call if you have any questions. We are in this together and will get through it as a team.

All the best,

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Disclosure:

The forecasts or forward-looking statements are based on assumptions, subject to revision without notice, and may not materialize.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results.

The S&P 500 Composite Index is an unmanaged group of securities considered to be representative of the stock market in general. The Nasdaq Composite is an index of the common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies.

Recession Fears Loom as U.S. GDP Falls for Second Quarter in a Row - WSJ

Stocks Turn Higher, Look to Extend Winning Streak - WSJ

Fed decision July 2022: Fed hikes interest rates by 0.75 percentage point (cnbc.com)

Walmart: This Is A Disaster (NYSE:WMT) | Seeking Alpha

Investors Bet Fed Will Need to Cut Interest Rates Next Year to Bolster the Economy - WSJ

FactSet Earnings Insight, July 29, 2022

Stocks Finish Higher; S&P 500 Posts Best Month Since 2020 - WSJ

Long-term Employment Tumbles to Its Pre-Pandemic Level- CNBC