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Weekly Market Commentary
September 12th, 2022

2022 Reality: GDP contracted in the first half of the year.

• The economic discussion shifted quickly from reopening to recession, with a negative sign in front of GDP growth for the first and second quarters of this year. Rising food and energy prices alongside falling consumer sentiment played a role, but the underpinnings of the economy are not as weak as the headline GDP figures suggest.

• Consumer spending (officially known as personal consumption expenditures) – which accounts for 70% of GDP -- has been healthy this year, despite rising prices and interest rates. In the first half of the year, GDP was negatively impacted by sizable swings in inventories and net trade values.

• Supply-chain disruptions have made positive progress, with indicators such as supplier delivery times and order shipments improving recently. We have seen some swing back toward services spending, including dining, leisure, and travel expenditures. However, this has not yet normalized, in part due to skyrocketing prices.

Looking ahead:

• GDP will return to positive territory for the second half of the year, though monetary-policy headwinds have raised the risk of recession. If an official recession transpires, we think it will be relatively mild, helped by the starting point of strength and the lack of financial imbalances or shocks that traditionally exacerbate downturns.

2022 Reality: Unemployment reached a 50-year low as the labor market remains healthy

• The labor market has lived up to lofty expectations, remaining the brightest spot in an economy that is facing headwinds from rising rates and elevated consumer prices. Total employment has returned to where it stood before the pandemic, though payrolls in the leisure and hospitality sector remain under water.

• Unemployment currently sits at 3.7%, up slightly from the 50-year low of 3.5% in July. Payroll gains continue to be healthy, while wage growth remains above average, thanks to 11 million job openings (compared to 7 million before the pandemic).

Looking ahead:

• Some cracks will emerge in the otherwise solid labor-market foundation. Slowing demand will likely spur hiring freezes and layoffs in certain industries, as has already been the case in pockets of the technology sector.

• The pace of monthly job growth will slow down, as will the lofty number of job openings. The number of job quits has declined from record highs in recent months, which we attribute to a moderating degree of confidence among workers that opportunities are as plentiful as they were this time last year. This will likely be

another factor that will gradually bring wage growth back toward more normal rates.

• Overall, broad employment conditions will remain reasonably favorable, offering an ongoing source of support for consumer spending, and thus the economy.

2022 Reality: Inflation remained higher for longer, exacerbated by energy prices.

• Slight help from easing supply constraints and more favorable year-over-year comparisons were overwhelmed by the spike in commodity prices, which pushed headline inflation to 9%, well above our expectations.

• The unexpected war in Ukraine sparked a surge in oil and grain prices. Meanwhile, a new round of full lockdowns in China under a "zero COVID-19" policy caused renewed supply constraints. The combination of these two factors led to higher inflation than we expected in the first half of the year.

• On a positive note, consumer prices, both headline, and core (which excluded food and energy) have started to trend lower, but not without exacting a toll on consumer finances and sentiment so far this year.

Looking ahead:

Inflation has likely peaked and will gradually moderate. Help is coming from favorable forces, like falling commodity prices, increased supply/deliveries, and slower price gains for many goods, including new and used vehicles. At the same time, inflation will also be led lower by less rosy factors, such as softer total demand (from a slowing economy) and slower wage growth.

2022 Reality: The Fed has been historically aggressive to fight higher-than-anticipated inflation

• The Fed's aggressive rate-hiking campaign has been the clear story (and surprise) for the markets this year. The surge in inflation has warranted such as response, but the adjustment to faster and larger rate hikes than experienced over the last several tightening phases caught the markets off guard, leading to a challenging first half for the stock and bond market performance.

Looking ahead:

• The Fed has prioritized its credibility in bringing down inflation over an effort to support ongoing robust economic demand, which we think is a prudent, though not painless, approach for longer-term stability.

• The Fed policy rate has already risen by the same amount as it did from 2015 to 2018 but in a fraction of the time. We think there is more to come on the rate-hike front, including our expectation for another 75-basis-point (0.75%) hike later this month.

• We are nearing the latter stages of the rate-hike campaign, with the Fed likely to take the policy rate to the 3.5%-4.0% range. This policy tightening, which will include further reductions to the Fed's balance sheet, will have a lagged effect on economic activity (except for housing, where the impacts are felt much more quickly due to rising mortgage rates). And it supports our view that the Fed will seek to front-load these remaining rate hikes to possibly pause and evaluate as we move into 2023.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	32,152	2.7%
S&P 500 Index	4,067	3.6%
NASDAQ	12,112	4.1%
MSCI EAFE	1,801	-1.3%
10-yr Treasury Yield	3.31%	.1%
Gold	$1,717	.29%
Bonds	$99.78	-.6%

Earnings Highlights This Week

Game Stop: GameStop said quarterly sales declined and losses widened, as its cash pile shrank, and inventory swelled. The company also disclosed a new partnership with crypto exchange FTX. As sales declined overall, GameStop, which launched an NFT marketplace in July, pointed to the growth of some newer businesses.

Nio: Chinese electric vehicle maker Nio lost $409.8 million in the second quarter, representing significantly widening losses. The company's vehicle deliveries surpassed year-ago levels and exceeded its own guidance. CEO William Bin Li said in a statement Wednesday that the second half of 2022 is a "critical period" for the company.

News and Notes:

Credit Card Interest Rates Are The Highest Since 1996

· What should people be looking at right now with their current credit cards?

- The average credit card interest rate is now almost 18% and up 10% versus one year ago.
- Credit cards typically track the prime rate which is 5.50% right now and was 3.25% one year ago.
- Most credit card holders have a variable rate on their credit cards. This means if the Fed keeps raising interest rates, the rates on credit cards will continue to up.

· What can consumers do if they have high-interest credit card rates?

- Call your credit card company to consider a workout agreement. This may allow you to change the terms of the credit card.
- Consider a transfer of your credit card balance to a zero-interest or low-interest rate card. Zero interest is usually 12 to 18 months.
- Could consider a Home Equity Line Of Credit but be careful about quickly building back up the credit card debt.
- If you move balances or pay off a card, don't cancel it. Cut it up. Cancelling could negatively affect your credit score.

· Why is credit card going up so much if the economy is doing well?

- Even though wages are up roughly 5%, inflation is up 8.5%, plus many people are revenge shopping and revenge traveling.
- For a person with $5,000 of debt, it would now take them 190 months

to pay off the debt (that's 16 years) if they made minimum payments.

- Remember, from an investment perspective, paying off this debt is like getting a guaranteed 18% if that is your credit card rate.

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