Rodney's Take

August 1, 2022

The Fat Lady Isn't Singing

Dang, July felt good! After months of relentless selling, ugly inflation, rising rates, and bad news from around the globe, it was a relief to see… oh, wait a minute. We STILL have ugly inflation, rising rates, and bad news from around the globe. The only thing that changed was our perceptions, mainly about what the Fed will do next. While that was good enough for nearly double-digit gains in the S&P 500 and more than 12% in the Nasdaq, there's a funny thing about perceptions: they can flip back in an instant. Don't bet your life savings on them; we still have a ways to go before sounding the all clear.

A couple of months ago I wrote about perhaps getting "Christmas in July" in the markets. I was referring to economic data turning lower, which might drive the Fed to take a more measured stance in its inflation fight, which would give investors a reason to pile into it. That happened, but don't mistake an unexpected gift with a change in season. Things aren't better yet. Inflation remains hot, the rest of the world is struggling with mounting debt costs due to the strong dollar, a madman is pummeling Europe both physically in Ukraine and economically in the eurozone, higher energy costs are filtering through the U.S. economy, and auto companies can't get parts for cars. None of that says, "Economic recovery just around the corner!" Play this one close, with your trading stops in place.

I was glad to see the Federal Reserve change its decision-making from raising rates no matter what to watching data points. It seems sort of obvious that the central bank, which employs thousands of economists, would, you know,

watch data, but that hasn't been their slogan since March. Now that we have a recession in place (albeit one with very low unemployment for the moment) and sketchy times ahead, the Fed appears more cautious, but that's not the same as taking a break. I think inflation will dip in the months ahead because of the base effect and falling oil prices, but we're not talking 5%. The central bankers have a ways to go before they declare the inflation monster good and dead.

August should be fun for anyone who likes volatility. Good economic data will be a sign that the Fed should stay the course, raising rates by 0.75% in September and another 0.50% or so by November, especially if inflation remains stubbornly high. Bad data will show that the economy is suffering so the Fed might pause, but would they take a break if inflation remains high? We won't know until they meet again, or at least until they give us a preview in Jackson Hole, Wyoming, near the end of the month.

Between now and then, we can enjoy the good times for as long as they last, but don't think for a minute that the latest round of tightening, or at least intent Fed-watching, is over. We should be closer to the end of this tightening cycle than the beginning, because the central bankers raised rates so quickly this year, but slower rate hikes are still rate hikes and higher prices still hurt. For a good example of what lies ahead, check out rising energy costs around the country. Natural gas prices have soared this year. Those higher rates will take time to find their way into local power rates, where they will eat into consumer spending for at least the next year. With the Fed still pushing higher and consumers still getting squeezed, we're likely just at intermission in this economic opera. Guard your assets accordingly.

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Got a question or comment? You can contact us at info@hsdent.com