Furstenau Wealth Update
August 01, 2022

The Markets

Investors thought they heard a dovish note from the Federal Reserve and markets rallied.

Last week, we learned from the Bureau of Economic Analysis (BEA) that economic growth in the United States slowed for the second consecutive quarter. Economic growth is measured by gross domestic product, or GDP, which is the value of all goods and services produced during a specific period. GDP includes household, business and government spending, as well as exports and imports.

Before inflation, the U.S. economy grew by 6.6 percent in the first quarter of 2022 and by 7.9 percent in the second quarter, according to the FRED Economic Data. After inflation, GDP shrank by 1.6 percent in the first quarter and by 0.9 percent in the second quarter.

Is it a recession or isn't it?

Two consecutive quarters of negative growth is the popular definition of recession, and there was a lot of debate last week about whether the U.S. is in a recession. One reason for the debate is that the main driver of U.S. economic growth is household spending, which accounts for about 68 percent of GDP. During the first half of the year, household spending continued to increase, although it slowed.

"While a low unemployment rate and still-healthy consumer and corporate balance sheets mean the economy continues to show resilience for now, expectations that the U.S. will enter a formal downturn within the next year continue to rise," reported Megan Cassella of *Barron's*.

Financial markets rallied

In unscripted remarks, Fed Chair Jerome Powell indicated that interest rates had reached a neutral level. When rates are neutral, monetary policy is neither contractionary nor expansionary. Investors took Powell's comment to mean the Fed might ease rates sooner rather than later, and markets rallied, wrote Economist Mohamed A. El-Erian in a *Bloomberg* opinion piece.

"The S&P 500 soared 4.3% for the week and 9.1% in July, the best monthly advance since November 2020…Treasury yields dropped across the curve as well…Taken together, the equity and bond rallies helped loosen U.S. financial conditions," reported Katherine Greifeld and Vildana Hajric of *Bloomberg*."

While the rally was welcomed by investors, looser financial conditions are the opposite of what the Fed wants to achieve. It is trying to tighten financial conditions and reduce demand. It appears the Fed has more work to do.

Data as of 7/29/22	1-Week	Y-T-D	1-Year	3-Year	5-Year	10-Year
Standard & Poor's 500 Index	4.3%	-13.3%	-6.5%	11.0%	10.8%	11.5%
Dow Jones Global ex-U.S. Index	1.8	-17.6	-18.8	0.6	0.1	2.9
10-year Treasury Note (yield only)	2.6	N/A	1.3	2.1	2.3	1.5
Gold (per ounce)	1.0	-3.7	-4.2	7.3	6.7	0.8
Bloomberg Commodity Index	4.6	22.9	24.9	15.5	7.6	-1.7

S&P 500, Dow Jones Global ex-US, Gold, Bloomberg Commodity Index returns exclude reinvested dividends (gold does not pay a dividend) and the three-, five-, and 10-year returns are annualized; and the 10-year Treasury Note is simply the yield at the close of the day on each of the historical time periods.

Sources: Yahoo! Finance; MarketWatch; djindexes.com; U.S. Treasury; London Bullion Market Association.
Past performance is no guarantee of future results. Indices are unmanaged and cannot be invested into directly. N/A means not applicable.

COMPANY SALES AND PROFITS WERE UP IN THE SECOND QUARTER. A perceived dovish tilt at the Fed wasn't the only reason stocks rallied last week. It's earnings season – that wonderful time when leaders of publicly traded companies tell investors how they performed during the last quarter and share expectations for the future. Investors review the information and use it to make decisions about whether to buy, sell or hold shares.

More than half of companies in the Standard & Poor's 500 Index had reported by the end of last week. Earnings (profits) were better than expected for about three out of four of those companies. So far, companies in the energy and industrials sectors are the standouts for the second quarter. Energy sector earnings were up 290.3 percent and industrial sector earnings were up 25.7 percent, reported John Butters of *FactSet*. The consumer discretionary (down 17.9 percent) and financials (down 25.0 percent) sectors are the weakest performers, to date.

Revenue, which is the value of goods and services sold, was up more than 12 percent among the companies that have reported so far. Every sector of the index reported higher revenue for the second quarter with energy (up 66.4 percent), materials (up 16.1 percent), and real estate (up 14.7 percent) leading the way. The communication services (up 5.8 percent) and financials (up 2.5 percent) sectors lagged.

"Despite worrisome signals from economic proxies like [a big box retailer] and [a shipping and supply chain management company], the earnings season as a whole has turned out to be brighter than expected...That's fueling speculation that Corporate America will be able to weather the perfect storm of hot inflation, jumbo-sized rate hikes and dwindling growth," reported Rita Nazareth of *Bloomberg*.

While a significant number of companies have yet to report, blended second quarter earnings for companies in the Standard & Poor's 500 index were up 6 percent.

Weekly Focus – Think About It
"Let your dreams outgrow the shoes of your expectations."

—Ryūnosuke Satoro, author and poet

Best regards,

Ryan D. Furstenau

P.S. Please feel free to forward this commentary to family, friends or colleagues. If you would like us to add them to the list, please reply to this email with their email address and we will ask for their permission to be added.

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* All indexes referenced are unmanaged. The volatility of indexes could be materially different from that of a client's portfolio. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. You cannot invest directly in an index.
* The Dow Jones Global ex-U.S. Index covers approximately 95% of the market capitalization of the 45 developed and emerging countries included in the Index.
* The 10-year Treasury Note represents debt owed by the United States Treasury to the public. Since the U.S. Government is seen as a risk-free borrower, investors use the 10-year Treasury Note as a benchmark for the long-term bond market.
* Gold represents the 3:00 p.m. (London time) gold price as reported by the London Bullion Market Association and is expressed in U.S. Dollars per fine troy ounce. The source for gold data is Federal Reserve Bank of St. Louis (FRED), https://fred.stlouisfed.org/series/GOLDPMGBD228NLBM.
* The Bloomberg Commodity Index is designed to be a highly liquid and diversified benchmark for the commodity futures market. The Index is composed of futures contracts on 19 physical commodities and was launched on July 14, 1998.
* The DJ Equity All REIT Total Return Index measures the total return performance of the equity subcategory of the Real Estate Investment Trust (REIT) industry as calculated by Dow Jones.
* The Dow Jones Industrial Average (DJIA), commonly known as "The Dow," is an index representing 30 stock of companies maintained and reviewed by the editors of The Wall Street Journal.
* The NASDAQ Composite is an unmanaged index of securities traded on the NASDAQ system.
* International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.
* Yahoo! Finance is the source for any reference to the performance of an index between two specific periods.
* The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage is often obtainable in commodity trading and can work against you as well as for you. The use of leverage can lead to large losses as well as gains.
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