Market Perspectives

3rd Quarter 2022

Market Outlook for Q3

We enter the third quarter with concerns of a recession and its impact to the U.S. economy.

Surging global inflation, hawkish central banks, supply chain struggles, a war between Ukraine and Russia, and China's zero-COVID policy are just some of the many factors negatively affecting the global economic outlook.

Could a Recession be in the Future?

Chairman Powell assuages economic concerns, suggesting that the economy is not in recession. The Federal Reserve (Fed) will remain vigilant against inflation and the pace of these "unusually" large interest rate hikes will end at some point.

Economists suggest that if we are to enter a recession, it will likely not be strong, but rather a mild economic slowdown.

What is the Fed Doing to Manage the Possibilities?

As expected, the Fed lifted the interest rate 0.75% to 2.50% on July 27th. This increase aligns with market predictions. This is considered neutral territory (the rate deemed to neither stimulate nor restrict the U.S. economy).

This is the Fed's fourth interest rate hike in this tightening cycle, dating back to its first hike that began March 16th.

The Fed will rely on data to adjust the path of rate of increases as needed.

Are Global Economic Factors Impacting Markets?

The current global issues are significantly impacting investors. Though the economy is not the stock market, we have seen a lot of volatility in the markets too. Market volatility is unsettling but not unusual. As always, investors should continue to focus on the long term.

Questions

If you have any questions about these topics, please let our team know.

Economic Snapshot

The US economy has started to slow down as higher interest rates hit interest sensitive sectors. Although we see a continuation of economic growth, uncertainty has increased considerably. Job growth has remained strong, but it is also weakening. Inflation has become the biggest risk for policymakers as well as for the outlook. The Federal Reserve (Fed) has become more aggressive in its interest rate campaign as five-year ahead inflation rate expectations have started to move away from its comfort level. Russia's invasion of Ukraine has continued to prevent a 'back-to-normal' environment after the ease of pandemic conditions. The probability of a shallow recession in 2023 has increased considerably.

	ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	EMPLOYMENT	Nonfarm payrolls are still below where they were before the pandemic. Employment growth is expected to continue but at a slower pace.
	BUSINESS INVESTMENT	Business fixed investment is expected to weaken in the coming quarters. The war between Ukraine and Russia and expectations of a more aggressive Fed policy stance could threaten prospects.
	MANUFACTURING	Manufacturing growth has slowed in recent months, but exports growth remains supportive of continued expansion.
	THE DOLLAR	Stronger. Central bank policy is a key factor in the near-term currency outlook and the Fed is likely to be more aggressive in tightening. The dollar often benefits from global tensions.
NEUTRAL	GROWTH	GDP growth is expected to continue to moderate.
	CONSUMER SPENDING	Job and wage growth should remain supportive, but inflation is expected to continue to slow real consumer demand.
	HOUSING AND RESIDENTIAL CONSTRUCTION	There are important signs of slowing housing demand due to the strong increase in mortgage rates. However, inventories of homes are still low, so there should be some support for the housing market.
	LONG-TERM INTEREST RATES	Despite elevated inflation, bond yields remain low by historical standards. Bond yields ought to rise as the Fed begins unwinding its balance sheet.
	FISCAL POLICY	A reduction in fiscal stimulus (compared to the massive levels of 2020 and 2021) will subtract from GDP growth in 2022, but the impact should be more than offset by increased private-sector demand.
	REST OF THE WORLD	The Coronavirus is still a factor globally. The conflict in Ukraine will have a bigger impact on Europe's economy than in the US. Inflation is higher everywhere, which is an issue especially for emerging economies.
UNFAVORABLE	INFLATION	Elevated. Inflation remains the biggest risk for the economic outlook. The shift toward service consumption should help reduce price pressures on goods. However, oil prices remain the biggest threat to inflation.
	MONETARY POLICY	The Fed has become more aggressive with rate increases as expectations of longer-term inflation have started to move. This raises the risk of overdoing it, leading to a possible recession in 2023.

Raymond James, "July 2022 " *Investment Strategy Quarterly,* Pg. 4-7, 17 Web.

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