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Quarterly Economic Update

In this Q3 recap: Stocks closed lower in the third quarter as an early summer rally ended after the Fed pledged to continue its fight against inflation.

U.S. Markets

Stocks took investors on a roller coaster ride in the third quarter, with an early summer rally ending abruptly after the Fed pledged to continue fighting inflation.

The Dow Jones Industrial Average dropped 6.65 percent during the quarter. The Standard & Poor's (S&P) 500 Index fell 5.28 percent, while the Nasdaq Composite lost 4.11 percent.[1]

A July Rally

After a painful slide from the start of the new year, stocks staged a powerful rally off their mid-June lows.

The summer rally peaked in July as both the S&P 500 Index and the Nasdaq Composite posted strong gains.

The fears of economic weakening that plagued the stock market all year seemed to lessen, even though much of the economic data suggested little had changed.

For example, June inflation came in at 9.1 percent, and many investors anticipated a 100-basis point hike in the federal funds rate after July's Federal Open Market Committee (FOMC) meeting.[2]

Powell's August Speech

The upward momentum continued into the first half of August but ended abruptly as rate hike concerns reasserted themselves.

However, Fed Chair Jerome Powell's hawkish speech at the Jackson Hole Economic Symposium sent stocks lower, returning the market to this year's general malaise.

Economic Focus in September

Stocks saw a brief September upturn but lost momentum ahead of the September 20–21 FOMC meeting, in which the Fed announced its third consecutive 75-basis point hike of the year.[3]
Even though markets anticipated the change in interest rates, the Fed's dim outlook surprised many investors, forcing them to confront the potentially unavoidable scenario of an economic hard landing.

Quarterly Sector Scorecard

Many sectors were lower in the third quarter, but Energy (+0.71 percent) bucked the trend. Elsewhere, Communications Services lost 11.76 percent, Consumer Discretionary fell 3.62 percent, and Consumer Staples dropped 7.55 percent.

Meanwhile, Financials dipped 3.47 percent, Health Care slipped 5.56 percent, Industrials declined 5.15 percent, Materials fell 7.60 percent, Real Estate lost 11.87 percent, Technology slipped 6.73 percent, and Utilities dropped 6.59 percent.[4]

What Investors May Be Talking About in October

In mid-October, China's Communist Party will hold its five-year planning meeting, during which President Xi will most likely be elected to a third term and possibly "president for life." This meeting will also craft China's five-year economic framework and foreign policy.[5]

The most immediate concern is whether China will maintain its zero-COVID policy, a decision that has slowed economic growth, affected global supply chains, and disaffected its citizens.

Observers will be watching China for any policy statements concerning Taiwan. Even the hint of military action may add further geopolitical risk to the financial markets.

China is an essential cog in the global supply chain and an important market for Western goods. The degree to which it pursues cooperation or confrontation will hold implications for global economies in the years ahead.

World Markets

Headwinds to global economic growth continued to build in the third quarter. The International Monetary Fund (IMF) now projects that global economic growth will decelerate to 3.2 percent in 2022 from its earlier estimate of 3.6 percent.[6]

China's zero-COVID policy has continued to slow its economy and strain global supply chains, causing the IMF to lower its estimate of China's 2022 economic growth to 3.3 percent, the lowest rate in four decades, excluding the COVID pandemic period of 2020.[7]

Economic conditions in Europe are also a concern as Eurozone economies remain depressed by accelerating inflation, strained supply chains, the war in Ukraine, and economic slowdowns in China and the U.S.— it's largest trading partners.[8]
Japan's economy is facing challenges as well, though less acute than in Western economies. The Bank of Japan revised its economic growth projections to be lower due to weakened global economies and continued supply chain constraints.[9]

QUARTERLY TIP

Your will, trust and powers of attorney should be reviewed regularly, once a year if possible. Time can alter priorities and intentions.

Indicators

Gross Domestic Product: The third estimate of second quarter GDP growth was -0.6 percent on an annualized basis. The personal consumption expenditures (PCE) price index was revised higher by 0.2 percentage points to 7.3 percent, indicating continued inflationary pressures.[10]

Employment: Employers added 315,000 jobs in August. The unemployment rate rose to 3.7 percent, up from last month's 3.5 percent level, though the jump was largely attributed to an increase in the labor participation rate, from 62.1 percent to 62.4 percent. Wages continued to grow, rising 0.3 percent in August and 5.2 percent from a year ago.[11]

Retail Sales: Retail sales rose 0.3 percent in August, powered by automotive sales. Excluding vehicle-related and gasoline sales, retail sales fell 0.3 percent.[12]

Industrial Production: Production in the nation's factories, mines, and utilities slipped 0.2 percent, though manufacturing output saw a slight increase of 0.1 percent.[13]

Housing: Housing starts rose 12.2 percent in August, propelled by a 28.6 percent increase in multi-family housing starts.[14]

Existing home sales fell 0.4 percent from July to August and 19.9 percent from a year ago. The median sales price dropped for the second straight month.[15]

New home sales climbed 28.8 percent, representing the second biggest increase on record. The median price of new home sales fell from a record high of $458,200 to $436,800.[16]

Consumer Price Index: Consumer prices moderated in August as year-over-year inflation rose 8.3 percent, a slight decrease from its 8.5 percent pace in July and down from its recent peak of 9.1 percent in June. However, core prices (excluding food and energy) rose 6.3 percent in August, up from June and July.[17]

Durable Goods Orders: For the second-consecutive month, orders of long lasting goods fell, declining 0.2 percent in August. Excluding defense, orders were 0.9 percent lower.[18]

The Fed

The FOMC announced its third consecutive 0.75-percent hike in the federal funds rate following its September 20-21 meeting.[19]

The FOMC also issued new projections suggesting that interest rates may be increased by another 1.25 percentage points by December. It also said unemployment may rise to 4.4 percent by the end of 2023 (up from August's 3.7-percent level), and that interest rates may reach as high as 4.6 percent in 2023, with a rate cut unlikely until 2024.[19]

MARKET INDEX	Y-T-D % CHANGE	Q3 % CHANGE	Q2 % CHANGE
DJIA	-20.95%	-6.65%	-11.25%
NASDAQ	-32.40%	-4.11%	-22.44%
S&P 500	-24.77%	-5.28%	-19.68%

BOND YIELD	9/30 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	3.80%	3.13%	1.53%

Sources: Yahoo Finance, September 30, 2022

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. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

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