

Weekly Market Insights

July 24, 2023

The Week That Was!

Financial Markets

United States financial markets continued on their remarkable run this past week. The Dow gained 2.08%, the S&P 500 gained 0.69%, while the NASDAQ fell 0.57%. It really has been a remarkable show of investor confidence. When we look at the past year, there are many things that could have tossed financial markets into a tailspin—the war in Ukraine, the pandemic, a banking scare, continued inflation, and rising interest rates, just to name a few. Investors appeared to look past these obstacles. As we will read in the economics section, in many cases they were correct in their response. The banking crisis appears to have abated, but, in some of the other concerns, the jury is still out—inflation and interest rates, to name two.

This Wednesday, we will all hear from the elephant in the room, the Fed! No matter what else happens, the Federal Reserve's decision and comments from the press conference will dominate investors' minds. We should not only care whether they raise interest rates and by how much but also listen for innuendos in the release and comments. Finally, investors will be interested in the financial results reported by many large companies this week.

Economics

As stated, the biggest news this coming week will be the Federal Reserve announcement concerning interest rates. Inflation appears to be moderating but not at the Fed's desired level. We are at a point where the Fed must have some concern about overdoing it. It seems reasonable that they will decide to raise rates this week one more time but at a quarter of a percent. A 25 basis point increase communicates to investors and business

managers that the battle for inflation is not over. However, there is light at the end of the tunnel, and the Fed is aware of the risk of overstepping. We would not expect a dramatic market response to a quarter of a point increase, but the content of any forward looking comments could shift investor sentiment.

Leaving the realm of monetary policy, we don't see any immediate problems. As we wrote last week, bank earnings were fine. Deposit balances are firm and earnings good. We harp on the banks because of their importance in the system, and, as we saw earlier in the year, confidence in the banking system is so important and can be easily shaken.

Speaking of confidence, as readers might imagine, we follow a lot of polls. When polls ask individuals how they are doing financially, most respond positively, but, when asked how the country is doing, most respond negatively. Interesting.

Conclusion

The United States economy appears to be slowing, as is inflation. Does that mean the country is out of the woods and a soft landing is definitely on the horizon? Certainly not, but the economy does appear much better off than just a few months ago. We will know a bit more after the Fed reports are published, but economics is not a hard science and models are certainly fallible.

Please note, we will not be publishing a report next week.

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