Market Observations July 2023

It’s often hard to tell the difference between relevant market information and noise. That’s why every quarter our Market Observations newsletter lets you know what articles our advisors are using to form ideas and shape opinions. Take a look at what caught our eye this quarter!

BLOOMBERG

Wall Street soothsayers are bewildered about what's next

Markets and the economy followed a path in the first half of 2023 that few expected. "Heading into the year, a handful of predictions dominated strategists' annual outlooks. A global recession was imminent. Bonds would trounce stocks as equities re-tested bear-market lows. Central banks would soon be able to stop the aggressive rate hikes that made 2022 such a year of market misery. As growth stumbled, there'd be more pain for risky assets."

Instead, this year has deviated from those predictions as markets and the economy have proven more resilient than expected. Now analysts' forecasts for the remainder of the year disagree by one of the widest gaps in decades. Despite their inaccuracy, these predictions offer some value as they assess possible risks and opportunities at a point in time. It is essential, however, to take the appropriate lesson from these predictions when evaluating the market and build a portfolio that offers resiliency against a spectrum of possible and probable outcomes rather than a portfolio that requires a crystal ball for a successful outcome. Read More

MORNINGSTAR

Great news from the June CPI report: Inflation is truly declining

June's inflation report offered good news for consumers as 2023's falling trend continued with broad declines across most categories of goods and services. However, it is essential to be mindful that each inflation report is just a snapshot in time and that the Fed has been burned by inflation before. As such, the Federal Reserve will likely maintain a cautious approach, and an additional interest increase in July remains a strong possibility. Recent Fed statements combined with the trend in inflation means the Fed may be close to the completion of their interest rate increase and that falling interest rates may even be on the horizon as we head into 2024. Recession risks and economic challenges continue to loom, but with cooling inflation and a gradual slowing, the odds of a soft landing may be improving. Read More

NEW YORK TIMES

Wall Street's recession warning is flashing, some wonder if it's wrong

An inverted yield curve — when the rates on short-term bonds are higher than those of long-term bonds — has historically been considered an indicator of a coming recession. That scenario often reflects the bond market anticipating a slowdown in the economy. In 2022 the yield curve flipped to an inverted state as the Fed stepped up its interest rate hikes. At the same time, calls for a pending recession grew louder as areas of the economy began to cool. However, the call for a recession has yet to arrive, and some are now questioning when or if it will, as the pace of inflation has slowed without the economy tipping into recession.

This article looks at the mixed viewpoint from various economists about what is yet to come, acknowledging that while economic indicators provide a good rule of thumb, all scenarios have their own idiosyncratic conditions that must be accounted for. Read more

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