Monday September 11, 2023

*SUMMARY-*

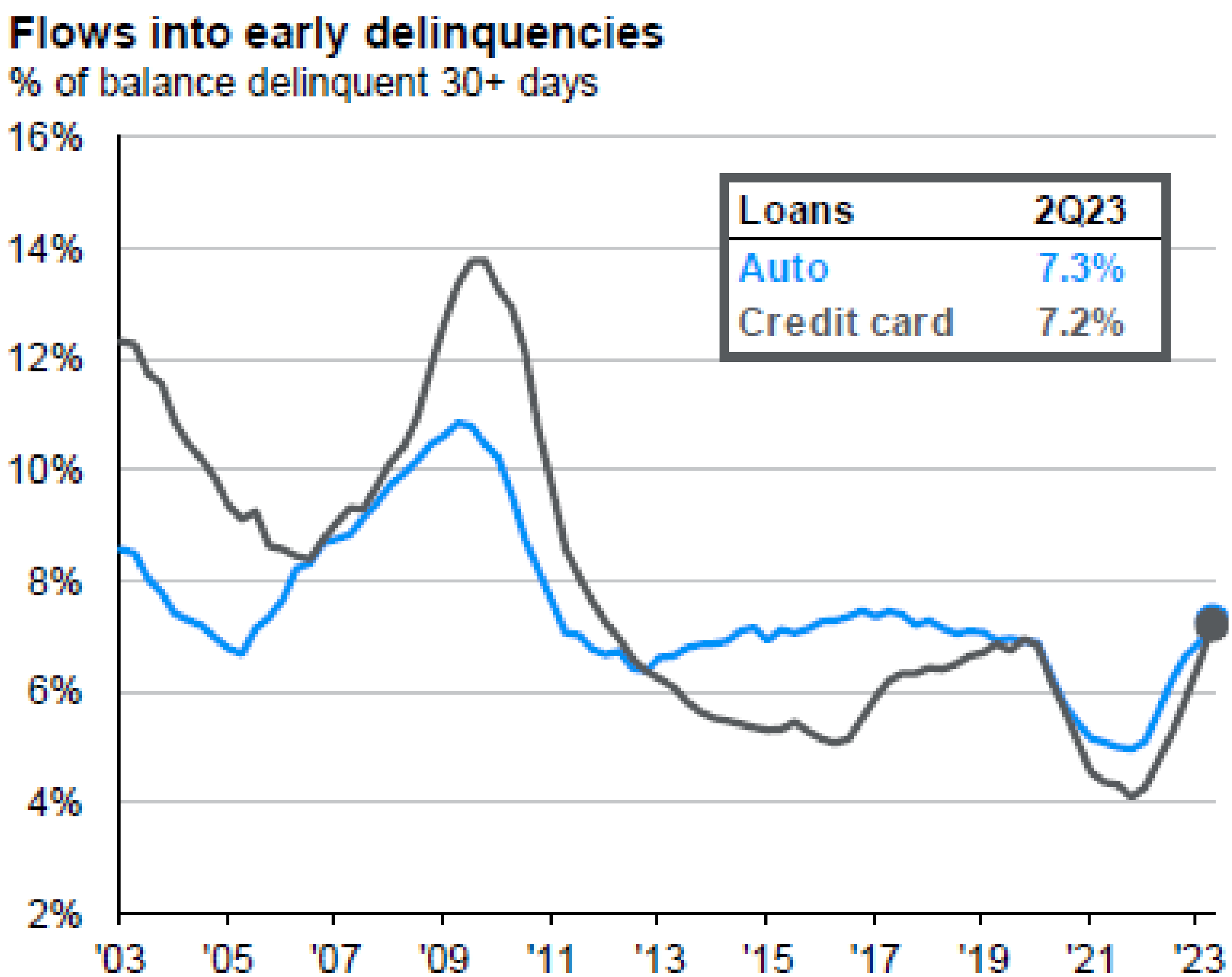
I. *Markets retreat last week ahead of next Fed meeting.*
II. *Signs of softening economy starting to materialize.*
III. *Credit delinquencies and energy costs both rising.*
IV. *Dr. Jeremy Siegel thinks Fed should cease and value stocks are cheap.*

Good afternoon:

Equities gave back some of their recent gains in last week's holiday-shortened trading sessions on growing concerns about further rate hikes against a backdrop of a slowing economy. Leading all averages lower was the small cap Russell 2000 Index that dropped 3.58%. The S&P 500 and NASDAQ fared somewhat better each losing between 1-2%. All three indices are up modestly this morning to start the week in a modest recovery mode. With several key economic reports still to come before next week's Fed meeting, market strategists and traders will be closely analyzing this remaining data in hopes of gauging the Fed's next move.

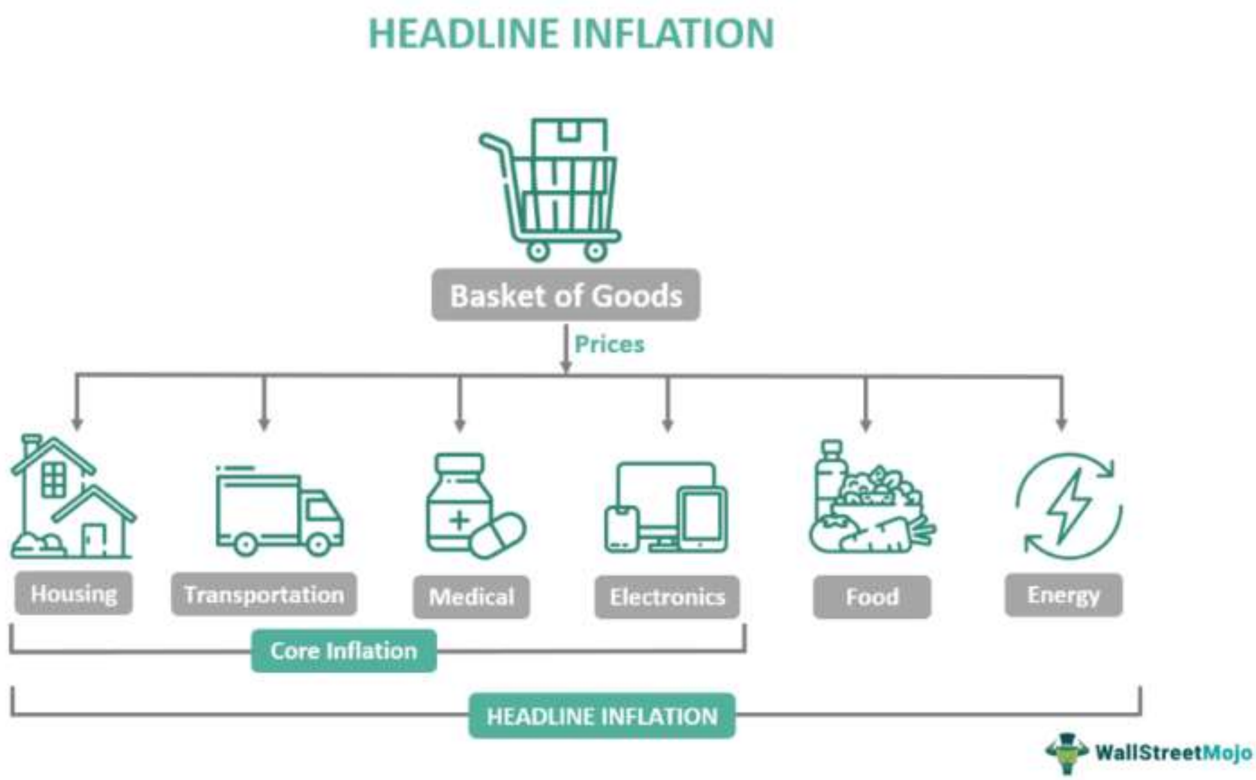
The resilient economy this year has been attributed to the tight labor market and the resulting consistent strong level of consumer spending. According to the Atlanta Fed's GDPNow forecast, household consumption contributed to over half of second quarter economic growth and is set to add a similar amount in the third quarter. However, the lag between Fed rate hikes and their measurable consequences in the economy may be finally starting to reveal itself.

During the pandemic, excess savings ballooned to a peak of $2.1 trillion, but has now dwindled to $0.2 trillion. This had led some consumers to rely on revolving credit to maintain their spending habits. Although credit card spending is only nearly back to its pre-pandemic share of disposable income (6.3% in June vs. 6.5% pre-pandemic), delinquencies on both credit cards and auto loans are starting to rise. Early credit card delinquencies for the second quarter rose to their highest level in ten years. With government-sponsored student loan payments set to resume at the end of the month, further pressure on consumer spending seems poised to impact both discretionary spending and consumer sentiment.




*Source: J.P. Morgan Asset Management*

This week's biggest report is set to be Wednesday's latest CPI data. With OPEC member Saudi Arabia, along with Russia last week extending their voluntary oil supply cuts of a combined 1.3 million barrels per day through the end of the year, inflationary pressures are likely to remain sticky. Wholesale gasoline prices are now at nine-month highs, up 23.3% YTD. With so much economically tied to this important commodity, we expect Headline CPI to post an increase for August. However, it's the Core CPI that strips out food and energy prices which could still show a downward trajectory.




In a private video conference we had last week with world-renowned economist and market expert Dr. Jeremy Siegel, he said he believes the Fed should be patient and not hike any further. He sees historically wide levels of value disparity between the cyclical growth sectors and the more defensive dividend-paying value sectors which could benefit long-term investors in that part of the market.  And finally, he does *not* see the equity market as being overvalued at current levels and expects stocks to continue to outperform other asset classes over the long run.

With so much riding on forthcoming specific pieces of data that may push the Fed in one direction or another, we expect enhanced volatility in the wake of these reports as they are released. As a reminder, stay focused on your longer-term goals and investment objectives and less so on daily market moves.

Have a great week!

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