UNIQUE WEALTH

Executive Summary: September 2022 Unique Wealth Market Commentary

The U.S. equity markets, as represented by the S&P 500 index, declined -4.1% in August as investors faced a "reality check" after Fed Chair Powell's speech at the annual Economic Policy Symposium in Jackson Hole. The ultimate takeaway from Powell's speech is that interest rates are likely to be kept higher for longer until inflation is brought under control despite higher recession risk and associated effects on employment and economic output. Mixed corporate profit results and spiking treasury yields also contributed to the volatility in August.

Factors Likely to Exert Significant Influences on Financial Asset Prices:

(i) **The Economy & Corporate Profits**: The U.S. economy for now appears in decent health, with: (i) the economy adding 315,000 jobs in August, (ii) July's job openings (reported on August 30th) ticking up to 11.2 million, and (iii) the share of adults working or seeking a job (the Labor Force Participation Rate) rising to 62.4% in August from 62.1% in July. Despite this strength in the labor market, there have been warning signs, specifically around anecdotal reports highlighting layoffs and hiring freezes.

(ii) **Corporate Profits**: With the 2Q2022 corporate earnings reporting season drawing to a close, S&P 500 companies have essentially reported stable earnings growth and revenue growth. In our view, the detrimental effects of the Federal Reserve thus far on aggregate economic activity and by extension, on corporate profits in coming quarters, have yet to play out fully.

(iii) **Monetary Policy & Interest Rates:** Federal Reserve Chair Powell concisely delivered an explicit message at the annual Economic Policy Symposium that the nation's central bank is firmly committed to the task of bringing inflation down until it has achieved stability in the general price level. Powell's speech emphasized that to bring about lower inflation will require some degree of suffering and discomfort in the form of a less robust labor market and reduced economic activity. As might be expected, Powell's resolute message led to higher U.S. Treasury bond yields.

(iv) **Inflation:** Some early signs have begun to appear that inflation pressures may have commenced easing. To be sure, elevated housing-related and labor costs tend to not be as susceptible to downward-trending supply/demand forces as grains, gasoline, industrial metals, and other goods. On a year-over-year basis in July, Headline CPI had declined to +8.5% versus +9.1% in June (helped by declining gasoline prices), while Core CPI at +5.9% remained unchanged.

In our opinion, financial markets' attention is likely to shift from worries about inflation and Fed tightening to concerns arising from a likely downshift in economic activity and a reduction in corporate profits growth. We expect analysts' S&P 500 earnings estimates to be revised downward further in the waning months of 2022, which is likely to represent somewhat of a headwind on equity prices. For the period ahead we emphasize diversification, risk mitigation, and low-volatility companies and sectors possessing defensive characteristics generating strong free cash flow. We currently favor Consumer Staples, Healthcare, Utilities, and the highest-quality technology companies.

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