

August 29, 2022 Update

Good morning. This past Friday, we saw another significant daily drop in the U.S. equity indices with the S&P 500 down by -3.37% and the tech-heavy Nasdaq by -3.94%. The 10 year Treasury closed at 3.03%. Sources: CNBC.

What was the cause of the rather harsh and somewhat surprising decline? An 8-minute speech (Wall Street Journal) by Fed Chairman Jerome Powell where he indicated the Fed will do just about anything necessary to break inflation. During the summer rally, markets had begun to price in a less aggressive Fed so when Powell effectively poured cold water on that idea, there was a sharp reaction to the downside. So what were the 4 ways Powell communicated the idea of staying the course on rates? Well, according to Tom Essay of the 7's Report, they are:

- 1) Rates may need to be raised to restrictive territory
- 2) There was no mention of the Fed being afraid over "Overtightening"
- 3) Nothing was mentioned about progress being made on fighting inflation so far
- 4) Although rates hikes may slow, they may stay higher for longer

It is very important to note that despite the speech, the market's EXPECTATIONS of year-end 2022 rates did not change (3.75% so-called terminal rate) and it remains a 50/50 toss-up as to rates moving up by .50% or .75% at the next Fed meeting in September. In short, his speech should have come as NO SURPRISE TO THE MARKETS since this is how other Fed governors have been saying the same thing for the past 2 weeks but for whatever reason, the markets listened this time.

Bottom line here is that the market has lost one of its main drivers for the summer rally: A less aggressive Fed. The good news is that the economic data remains solid, earnings came in much better than feared and the inflation data is, slowly, improving.

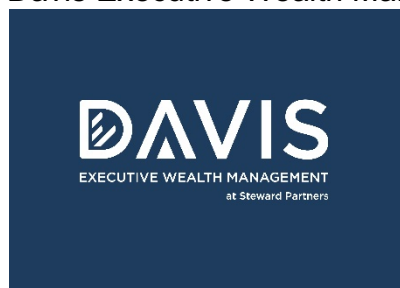
Have a good last full-week of summer! I look forward to catching up with you soon.

Regards,

Tim

See my Video: [Thoughts on the Markets July 29 2022](#)

Timothy Davis, CFP®
Executive Managing Director – Wealth Manager
Partner
Davis Executive Wealth Management Group



Steward Partners Global Advisory
One International Place, Suite 3210
Boston, MA 02110
(Direct) 617-377-4418
(Office) 617-377-4422
(Toll Free) 888-371-0086
(Fax) 857-233-2966

t.davis@stewardpartners.com
<http://www.davis.stewardpartners.com/>
<https://www.linkedin.com/company/timothy-davis-executive-wealth-management>



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The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. An investment cannot be made directly in a market index

The S&P 500 Index is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

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