



## Monthly Market Commentary: August 2023

The economy remained strong in the second quarter, with growth accelerating and GDP rising at a 2.4% annualized rate compared to 2% in the first quarter<sup>1</sup>. Consumers continue to propel the economy forward, with consumer spending growing at a 1.6% rate during the quarter<sup>1</sup> and headline retail sales rising 0.7% in July<sup>2</sup>. The consumer continues to benefit from a tight, albeit cooling, labor market with nonfarm payrolls increasing 187,000 in July<sup>3</sup>, a bit lower than Bloomberg's consensus estimate of 200,000<sup>4</sup>, and the second straight negative surprise after exceeding expectations for over a year<sup>5</sup>. The household survey showed stronger employment, with an increase of 268,000 jobs, and the unemployment rate fell from 3.6% to 3.5%<sup>3</sup>.

In today's environment, strong consumer spending can create concerns over what future inflation reports may look like, but so far, the recent improving trends have continued. The latest inflation report showed the Consumer Price Index (CPI) rose 0.2% in July across both headline and core measurements (which excludes the more volatile food and energy components)<sup>6</sup>. The report marked the smallest back-to-back increases in core inflation in over two years<sup>7</sup>. On an annual basis, the consumer price index rose 3.2% year-over-year, compared to 3.0% in June<sup>6</sup>. While housing costs continue to contribute significantly to both services and overall inflation, used-car prices and airfares decreased. The report is likely to increase the odds of the Federal Reserve keeping rates steady following their September meeting, though there is one more inflation report due before the meeting.

Speaking of the Federal Reserve, the Fed raised rates another 25 basis points to 5.5% at their most recent meeting at the end of July, marking the 11<sup>th</sup> hike since March 2022. At the press conference, Federal Reserve Chairman Jerome Powell avoided making specific predictions about future rate moves, emphasizing the Fed's need to be flexible based on economic data. However, the Fed is no longer forecasting a recession this year, but it does not expect inflation to slow to its 2% target until around 2025.

The bottom line: While the underlying economic data remains resilient, the outlook for the economy remains uncertain due to factors like student loan payments and tightening lending conditions. Rising oil prices could cause a spike in August's inflation report, though the Fed may overlook this due to decreased inflation expectations. Investors continue to focus on the Fed, especially since policymakers remain divided on rate hikes, with one group believing past rate hikes have been effective, while another group fears stopping too soon could lead to a resurgence in inflation. Changing expectations can create volatility in capital markets but increasing the odds of an economic "soft landing" *may* provide enough optimism to dampen the chances of significant volatility.

Sources:

1. Bureau of Economic Analysis, <https://www.bea.gov/news/2023/gross-domestic-product-second-quarter-2023-advance-estimate>
2. Census Bureau, [https://www.census.gov/retail/marts/www/marts\\_current.pdf](https://www.census.gov/retail/marts/www/marts_current.pdf)
3. Bureau of Labor Statistics, <https://www.bls.gov/news.release/empstat.nr0.htm>
4. Based on Bloomberg's survey of economists
5. Bloomberg Economics
6. Bureau of Labor Statistics, <https://www.bls.gov/news.release/cpi.nr0.htm>
7. Bloomberg Economics

This is being provided for informational purposes only and should not be construed as a recommendation to buy or sell any specific securities. Past performance is no guarantee of future results, and all investing involves risk. Index returns shown are not reflective of actual performance nor reflect fees and expenses applicable to investing. One cannot invest directly in an index. The views expressed are those of PlanWiser Financial and do not necessarily reflect the views of Mutual Advisors, LLC or any of its affiliates. Investment advisory services offered through Mutual Advisors, LLC DBA PlanWiser Financial, an SEC registered investment advisor.