



Summary

U.S. stocks tumbled on Friday and ended the week in the red as Fed Chair Jerome Powell signaled rate hikes are unlikely to end anytime soon. For the week, the Dow Jones Industrial Average fell 4.2%, the S&P 500 declined 4.0%, and the NASDAQ decreased 4.4%. Economic reports were mixed last week. Real gross domestic product (GDP) contracted an annualized 0.6% according to the second estimate for the 2nd quarter, an upward revision from the previous estimate; real final sales growth—which

excludes change in private inventories and reflects demand by consumers, businesses, and the government—rose 1.3%, up 0.2 points from the advance estimate. Initial unemployment claims for the week ending August 20 decreased 2,000 to 243,000. Personal income increased 0.2% in July compared with expectations for a 0.6% rise. Personal spending edged up 0.1% while the personal savings rate held steady at 5.0%. The personal consumption expenditures (PCE) price index eased 0.1% in July while the

core PCE price index rose 0.1%. On a year-over-year basis, the PCE price index climbed 6.3% and the core PCE price index advanced 4.6%. Orders of durable goods were unchanged in July while orders of core capital goods, a proxy for business investment, increased 0.4%. In housing news, rising interest rates continue to impact home sales; July new home sales declined 12.6% while the median sales price of a new home advanced 8.2% from a year.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
New Home Sales (Jul – Tu 10:00)	511 TUAR	580 TUAR	-29.6% from June 2021
Durable Orders (Jul – We 8:30)	+0.0%	+0.6%	Orders of core capital goods rose 0.4%
Durable Orders ex-transportation (Jul – We 8:30)	+0.3%	+0.1%	Transportation equipment orders declined 0.7%
Real Gross Domestic Product (Qtr 2 – Th 8:30)	-0.6%	-0.9%	Personal consumption expenditures increased 1.5%
Chain Deflator (Qtr 2 – Th 8:30)	+8.9%	+8.7%	
Initial Unemployment Claims (8/20 – Th 8:30)	243 K	253 K	4-week moving average rose 1,500 to 247,000
Continuing Claims (8/13 – Th 8:30)	1,415 K	NA	
Personal Income (Jul – Fr 8:30)	+0.2%	+0.6%	Real disposable personal income fell 3.7% from 7/21
Personal Spending (Jul – Fr 8:30)	+0.1%	+0.4%	Personal savings rate was unchanged at 5.0%
PCE Prices - Core (Jul – Fr 8:30)	+0.1%	+0.3%	+4.6% from July 2021
Michigan Sentiment (Aug – Fr 10:00)	58.2	55.1	
Upcoming Week: Indicator	Consensus Expectation*	Last Period	Comment
Initial Unemployment Claims (8/27 – Th 8:30)	250 K	243 K	
Continuing Claims (8/20 – Th 8:30)	NA	1,415 K	Not available
ISM Manufacturing Index (Aug – Th 10:00)	52.0%	52.8%	
Nonfarm Payrolls (Aug – Fr 8:30)	+300 K	+528 K	
Nonfarm Private Payrolls (Aug – Fr 8:30)	+280 K	+471 K	
Average Hourly Earnings (Aug – Fr 8:30)	+0.4%	+0.5%	
Unemployment Rate (Aug – Fr 8:30)	3.5%	3.5%	
Average Workweek (Aug – Fr 8:30)	34.6	34.6	
Factory Orders (Jul – Fr 10:00)	+0.2%	+2.0%	

*Sources: www.briefing.com and www.federalreserve.gov



Economic Review

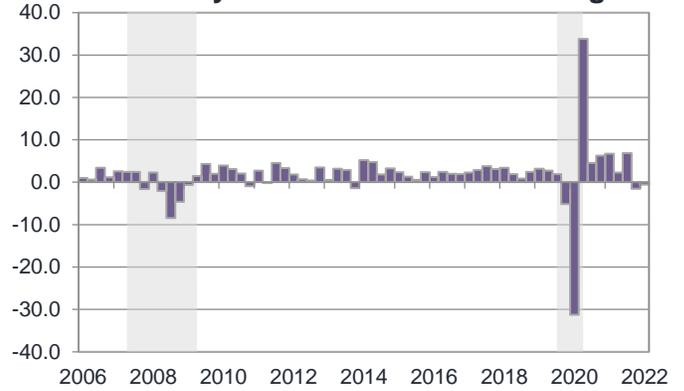
The U.S. economy contracted less than previously recorded last quarter according to the Commerce Department's second estimate for 2nd quarter real GROSS DOMESTIC PRODUCT (GDP). GDP decreased at a 0.6% annual rate during the quarter after a 1.6% decline in the 1st quarter. Consumer expenditures growth was revised higher to a 1.5% annualized gain in the 2nd quarter from 1.0% in the previous estimate. Nonresidential fixed investment was unchanged in the second quarter. Change in private inventories subtracted 1.83 points from growth in the 2nd quarter compared with a 2.01-point subtraction in the advance estimate while net exports added 1.42 percentage points to growth compared to a 1.43-point addition in the advance estimate. Real final sales growth, which excludes change in private inventories, increased an annualized 1.3%, up 0.2 percentage points from the advance estimate. The GDP PRICE INDEX increased an annualized 8.7% in the 2nd quarter.

Orders for U.S. manufactured goods intended to last at least three years were flat in July while orders for core capital goods—a proxy for business investment—increased. DURABLE GOODS ORDERS were unchanged in July after advancing an upwardly revised 2.2% in June. Transportation orders decreased 0.7% after jumping 6.1% in June; durable goods orders excluding transportation increased 0.3% after advancing 0.3% in June. Orders for nondefense capital goods excluding aircraft, a proxy for business investment, were up 0.4% after rising 0.9% in June and shipments of non-defense capital goods excluding aircraft—used in the GDP report—climbed 0.7%.

NEW HOME SALES, which are counted when contracts are signed, decreased 12.6% to 511 thousand units at an annualized rate (TUAR) from a downwardly revised 585 TUAR in June. From July 2021, sales were down 29.6%. The median sales price rose 8.2% from July 2021 to \$439,400. At the current sales pace, it would take 10.9 months to sell the 464,000 homes for sale; a six-month supply is typically considered a balanced market. By region, sales of new homes declined 20.6% in the Midwest, 12.1% in the South, and 13.3% in the West while sales climbed 13.3% in the Northeast.

Personal income and personal spending rose less than expected in July. After increasing 0.7% in June, PERSONAL INCOME inched forward 0.2% in July. Disposable personal income was also up 0.2% in July after climbing 0.7% in June; real disposable personal income advanced 0.3%. PERSONAL CONSUMPTION edged up 0.1% in July after increasing 1.0% in June. When adjusted for inflation, personal spending rose 0.2%. The savings rate held steady at 5.0% in July. The PERSONAL CONSUMPTION EXPENDITURES PRICE INDEX declined 0.1% in July after increasing 1.0% in June. The PCE price index excluding food and energy was up 0.1% after advancing 0.6% in June. From a year earlier, the price index for PCE jumped 6.3% and the core PCE price index was up 4.6%.

Real Gross Domestic Product Quarterly Annualized Percent Change



Durable Goods Orders Trillions of Dollars



New Home Sales Thousands





Fed Speeches

Federal Reserve Chair Jerome Powell spoke at the Federal Reserve Bank of Kansas City's economic policy symposium in Jackson Hole, Wyoming last week. Chair Powell said the Fed's attempt to reduce inflation will likely "bring some pain to households and businesses."

a failure to restore price stability would mean far greater pain.

Chair Powell also said the central bank has learned from past policy mistakes and is acting to prevent entrenched inflation.

History shows that the employment costs of bringing down inflation are likely to increase with delay, as high inflation becomes more en-

"While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses."

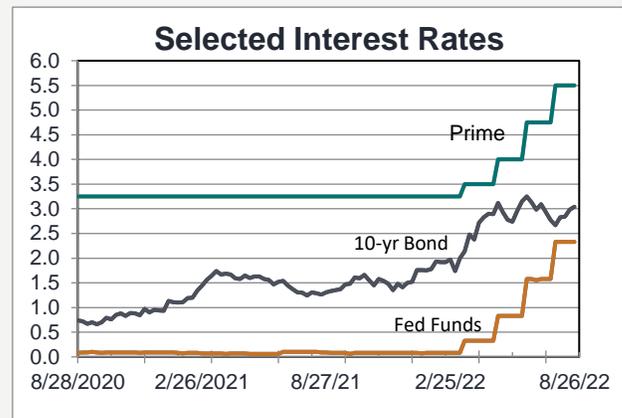
Federal Reserve Chair Jerome Powell

Restoring price stability will take some time and requires using our tools forcefully to bring demand and supply into better balance. Reducing inflation is likely to require a sustained period of below-trend growth. Moreover, there will very likely be some softening of labor market conditions. While higher interest rates, slower growth, and softer labor market conditions will bring down inflation, they will also bring some pain to households and businesses. These are the unfortunate costs of reducing inflation. But

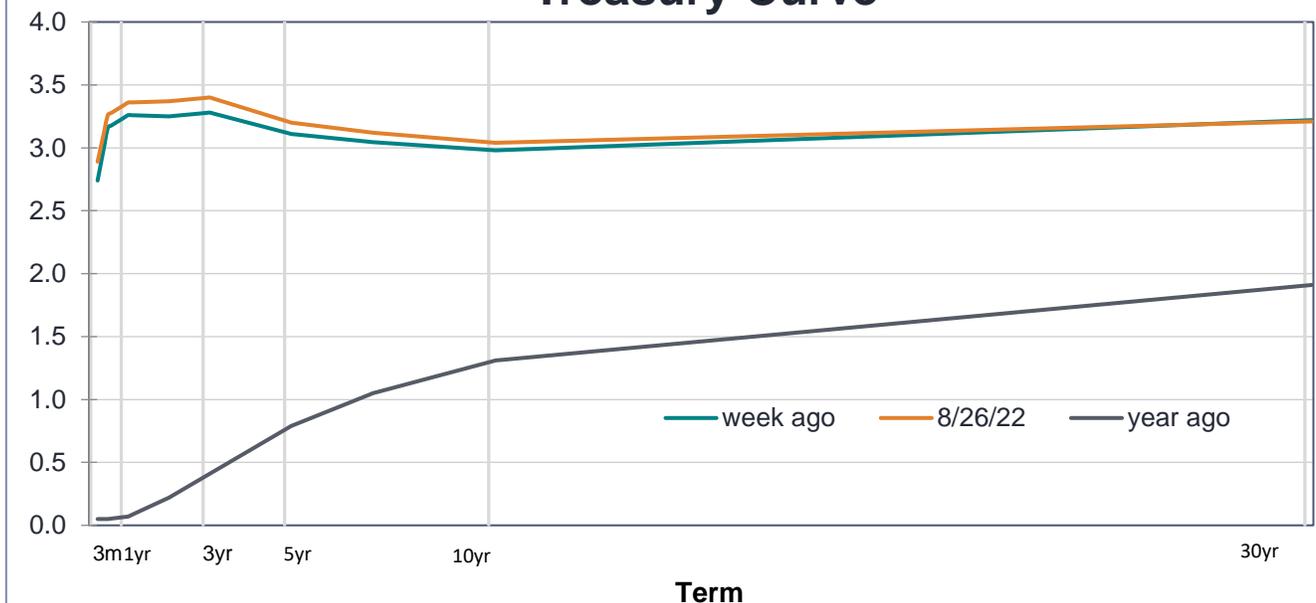
trenched in wage and price setting. The successful Volcker disinflation in the early 1980s followed multiple failed attempts to lower inflation over the previous 15 years. A lengthy period of very restrictive monetary policy was ultimately needed to stem the high inflation and start the process of getting inflation down to the low and stable levels that were the norm until the spring of last year. Our aim is to avoid that outcome by acting with resolve now.

Financial Markets

U.S. stocks ended last week sharply lower with the Dow Jones Industrial Average falling 4.2%, the S&P 500 decreasing 4.2%, and the NASDAQ declining 4.4%. Treasury yields were higher across the short end of the curve; the 10-year yield rose 6 basis points to 3.04% while the 30-year yield decreased 1 basis point to 3.21%. Oil prices were up 3.1% and ended the week at \$92.95 per barrel. The U.S. dollar advanced 0.5% against the Japanese yen and the euro fell 0.8% against the greenback last week.



Treasury Curve





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) raised the federal funds rate target to 2.25% to 2.50% at the Fed's July policy meeting. In the statement released following the July meeting, the FOMC said, "Recent indicators of spending and production have softened. Nonetheless, job gains have been robust in recent months and the

unemployment rate has remained low. Inflation remains elevated, reflecting supply and demand imbalances

related to the pandemic, higher food and energy prices, and broader price pressures." The statement

went on to say that the Committee "anticipates that ongoing increases in the target range will be appropriate."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3 rd Qtr '22	5.25	2.28	2.07	3.13	3.37	3.22	3.42	5.60
4 th Qtr	6.50	3.38	3.39	3.91	4.07	3.96	4.03	6.02
1 st Qtr '23	7.41	4.29	4.33	4.44	4.50	4.60	4.62	6.28
2 nd Qtr	7.08	3.96	3.99	4.04	4.15	4.31	4.37	5.86
3 rd Qtr	6.66	3.54	3.56	3.62	3.79	4.00	4.23	5.63

*Forecast as of July 25, 2022

FINANCIAL MARKET SUMMARY

	As of 8/26/2022	As of 8/19/2022	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	5.50	5.50	0	0	150
LIBOR Index Base Rate (1Month)	2.44	2.38	6	9	138
Fed Funds (Wed close)	2.33	2.33	0	0	150
TREASURIES (BE) (Changes in BPs)					
3 Months	2.89	2.74	15	48	181
6 Months	3.26	3.16	10	35	172
1 Year	3.36	3.26	10	38	135
2 Years	3.37	3.25	12	48	90
5 Years	3.20	3.11	9	50	49
10 Years	3.04	2.98	6	37	30
30 Years	3.21	3.22	(1)	21	24
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.26	2.20	6	66	37
5-Year Muni	2.60	2.20	40	76	39
10-Year Muni	2.54	2.47	7	70	3
30-Year Muni	3.30	3.19	11	37	41
30-Year Conventional Mortgage	5.55	5.13	42	25	45
MARKET INDICATORS (Changes in %)					
DJIA	32,283.40	33,706.74	(4.2)	(1.7)	(2.8)
S&P 500	4,057.66	4,228.48	(4.0)	(1.8)	(2.4)
NASDAQ	12,141.71	12,705.22	(4.4)	(2.0)	0.1
CRB Futures	320.24	312.51	2.5	2.6	(6.2)
Oil (WTI Crude)	92.95	90.13	3.1	(5.7)	(19.3)
Gold	1,750.20	1,760.30	(0.6)	(1.8)	(5.6)
Yen / Dollar	137.48	136.83	0.5	3.2	8.2
Dollar / Euro	1.00	1.00	(0.8)	(2.5)	(7.1)



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