

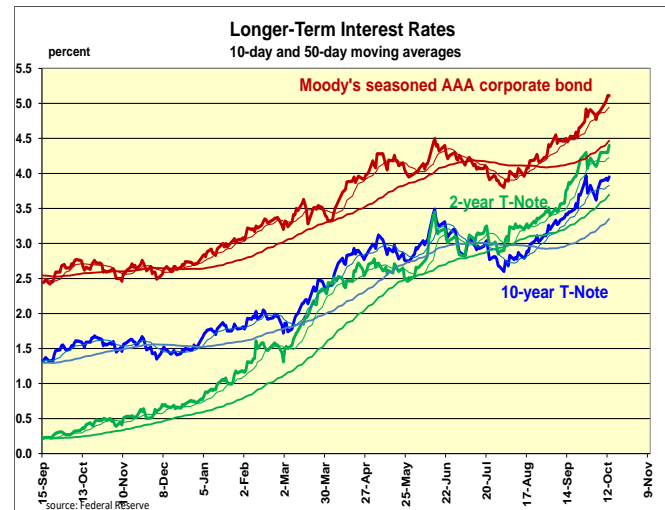
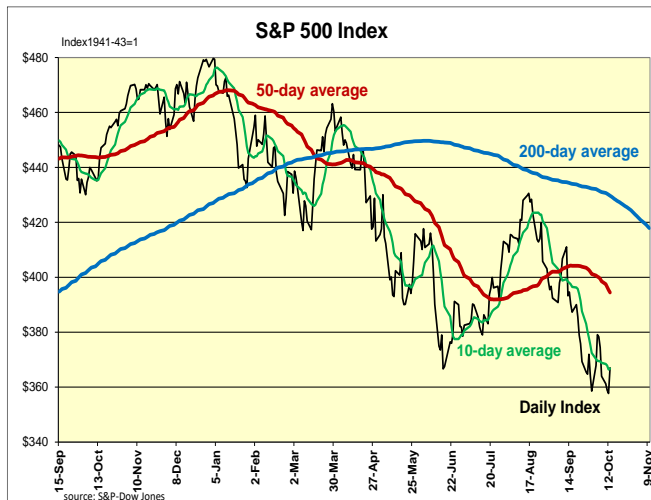


Robert Genetski

October 14, 2022

8:45 AM ET

		<u>Fundamental</u>	<u>Actual</u>	<u>Outlook</u>
Fixed-income:	10-yr Treasury rate	5.5	3.95	heading higher
Equities:	S&P 500	3,200	3670	heading lower



Market Outlook

Stocks moved mostly lower this past week. Yesterday's sharp upturn enabled the Dow to inch out a ½% gain, while the S&P500 and Nasdaq ended the week with losses of 2% to 4%.

One somewhat encouraging sign for stocks, yesterday's turnaround came on very high volume despite bad news on inflation. These are the signs you would look for if you wanted to bottom fish for stocks.

Inflation provided the only significant economic news. There was some progress at the wholesale level, but little relief at the consumer level.

Interest drifted higher as markets plugged in the near certainty the Fed will raise its fed funds target to 3¼% - 4% at its meeting less than three weeks from now. We continue to believe interest rates will go still higher after the November increase.

There still exists uncertainty over the extent of the Fed's restraint. My measure of liquidity has slowed substantially, offering some restraint. However, it is slightly higher in mid-October than it was in June. This is due to banks offsetting the Fed's sales by shifting balances from the Fed into the economy.

Based on a wide range of data, it appears more likely the economy has remained essentially flat most of this year. We continue to believe the economy is still in early stages of what will become a serious downturn in the months immediately ahead.

A Look Back

Today's September retail sales report appears to provide the first tentative sign of a downturn in the economy. Sales were unchanged for the month and increased at only a 2½% rate for the quarter.

Forces Impacting the Near-term Outlook for Stock Prices

Economic Fundamentals: **negative**
Monetary Policy: **restrictive**

Stock Valuation: over-valued **15%**
Recommended Stock Exposure: **minimal**

Retail sales data are erratic and often unreliable. However, if the latest numbers are accurate, the quarterly decline in real retail sales could be the first sign of the beginning of the upcoming downturn in the economy.

September's inflation reports confirm a slight easing in wholesale inflationary pressures. This confirms reports from business surveys. Even so, consumer and wholesale prices remained well above the Fed's target of 2%.

September total and core CPI numbers increased at annual rates of 5% and 7%, respectively. The total CPI benefited from a 10% decline in oil prices to \$84. With oil prices close back close to \$90, this benefit will no longer hold the total inflation down.

Wholesale prices for finished goods rose at a 4% annual rate. The Fed is a long way from containing inflation.

Weekly initial unemployment claims continue to point to a tight labor market. The latest four weeks claims remain in the mid-range of 200,000 to 250,000, where they have been for the past four months.

A Look Ahead

The economic news this coming week will help to clarify the extent of any overall weakness in the economy. Since the Fed only began to tighten in July, the economy in September still appears to be close to break even.

One area that is sinking fast is housing. On Tuesday, the Homebuilders' index is likely to show the October market for new homes continues to decline rapidly. September's reading was 46, breakeven is 50. We expect the downturn in housing deepened in early October.

Also on Tuesday, the Fed's report on September industrial production should be close to its high in August. Business surveys show manufacturing essentially unchanged.

The Lighter Side of Political Economy



Genetski golf: scores: 93, 97 hdcp: 19

Comment: *end of the season?*

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