



Robert Genetski

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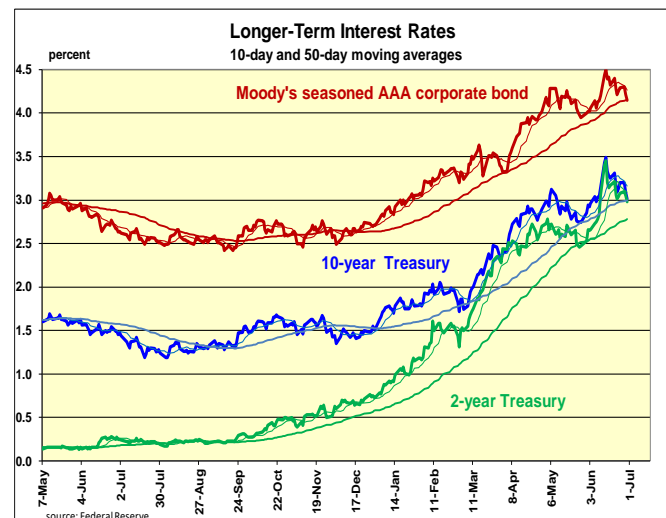
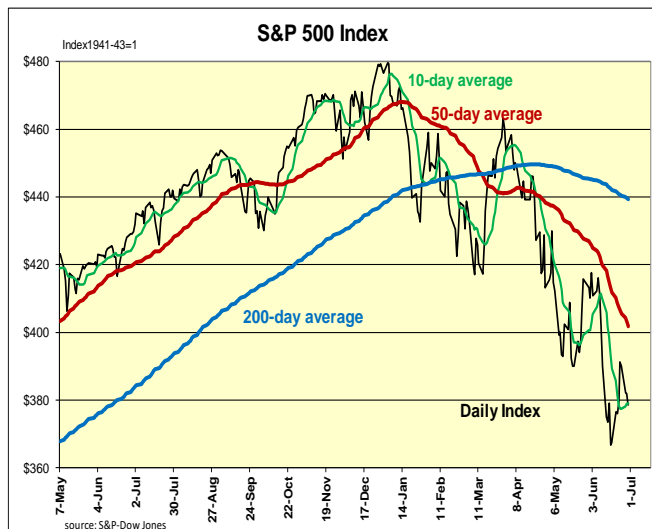
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The red color indicates an extremely risky environment for stocks.

June 24, 2022

8:00 AM ET

		<u>Fundamental</u>	<u>Actual</u>	<u>Immediate Outlook</u>
Fixed-income:	10-yr Treasury rate	5.5	3.01	leveling off
Equities:	S&P 500	3,300	3790	no clear direction



## Market Outlook

Stock prices moved erratically up and down before ending the week close to unchanged. Amid a flood of mixed news there is no clear direction for stocks.

The latest economic reports are not encouraging. They show some slowdown in current dollar spending (which is good). However, the slower growth in spending appears to be due to little, if any real growth. Inflation is moderating a bit, but it remains very high.

Almost all businesses say labor shortages are limiting their growth. Railroads, trucking, airlines, manufacturers and retailers say labor shortages are constraining or lowering output.

The data appear to confirm their concern. In June, the economy appears close to breakeven due primarily to a shortage of workers. Moreover, there are troubling signs that shortages, particularly in the food area, can get worse.

Interest rates and oil prices have eased during the past two weeks. The 10-year Treasury is at 3.0%, following a peak of 3.5%. Oil is down to \$106. Both moves are consistent with expectations of a flat to down economy.

The economy is likely to head lower sooner than we expected due to a shortage of workers and supply-side constraints. With stock prices 15% overvalued, the outlook for stocks remains challenging.

## A Look Back

Yesterday's report on income and spending in May shows current dollar spending, incomes and wages rising at 7% to 8% annual rates since the first quarter. Total inflation was up at a 6.6% rate, while core inflation (ex-food and energy) was up at a 4% rate. Real spending is up at only a ½% annual rate since the first quarter.

## Forces Impacting the Near-term Outlook for Stock Prices

Economic Fundamentals: **weakening**

Monetary Policy: **expansive**

Stock Valuation: over-valued **15%**

Recommended Stock Exposure: **25%**

The numbers are not likely to change the Fed's current policy direction. While the Fed will be pleased core inflation is easing, they will not be able to ignore total inflation number close to 6% to 7%.

Recent reports provide little reason for the Fed to change its stated plans. At its meeting in late July, the Fed is likely to raise the funds rate by another  $\frac{3}{4}$  of a percentage point and continue to sell \$47 trillion of securities each month.

The upward drift in initial weekly unemployment claims continued. June initial unemployment claims were 232,000, up from 209,000 in May, 188,000 in April and 175,000 in March.

### A Look Ahead

Later today, the June ISM manufacturing survey is expected to show manufacturing close to 50, meaning no growth. The advance June Market business survey put the number at 49 (a slight downturn). The report also showed new orders in negative territory for both manufacturing and service companies. If the ISM survey shows the same pattern, it will further confirm a downturn in the economy in the months ahead.

On Wednesday, the ISM survey for service companies is also expected to show the economy close to break-even. Supply-side concerns over

severe shortages continue to impact the economy's ability to increase output.

Friday's employment report is likely to show a gain of 250,000 to 300,000 workers, somewhat slower than the 350,000 plus gains in recent months.

### The Lighter Side of Political Economy



**Genetski golf:** 93, 98 hdcp. 18

**Comment:** *Settling in the 90s*

*Note: There is a lot of promising good news. The June-July monthly update will be out soon.*

## Wishing You and Your Family a Wonderful and Safe July 4<sup>th</sup> Holiday

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