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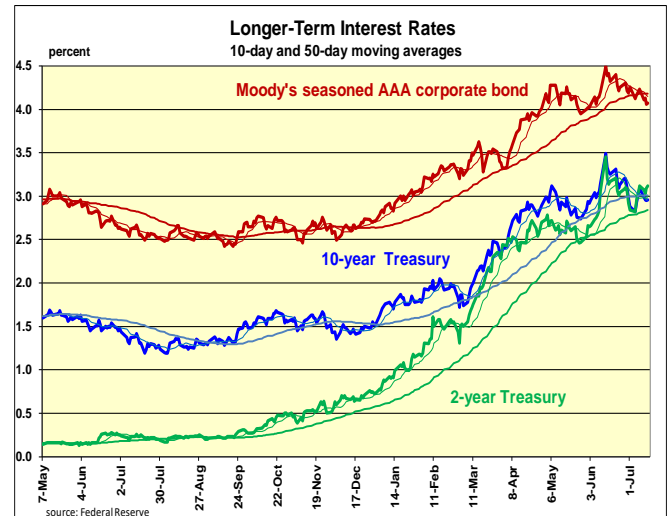
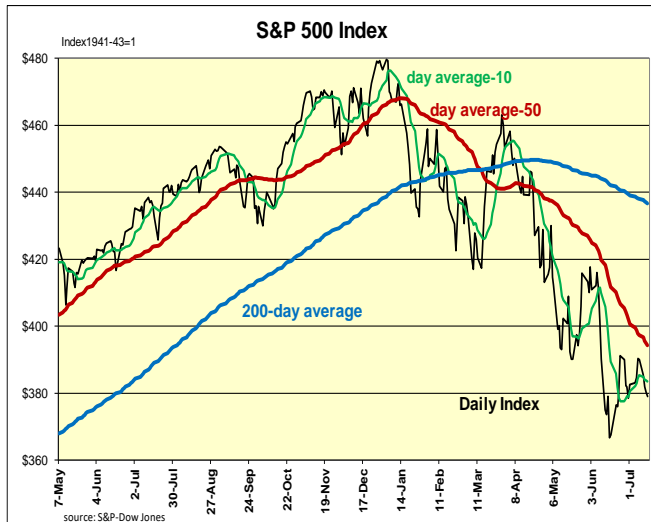
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The red color indicates an extremely risky environment for stocks.

July 15, 2022

8:45 AM ET

		<u>Fundamental</u>	<u>Actual</u>	<u>Immediate Outlook</u>
Fixed-income:	10-yr Treasury rate	5.5	2.96	leveling off
Equities:	S&P 500	3,100	3790	highly erratic



Market Outlook

The market has been about as erratic as my golf scores. Stocks followed last week's 2% to 5% gains with weekly losses of 2% to 4%.

Economic news was dominated by a much higher than expected inflation report. The yield on 2-year T-Notes rose to slightly above 3%, putting them above the yield on the 10-year Note.

An inverted yield in this range indicates financial markets expect the Fed to succeed in eventually lowering inflation. Financial markets also expect the Fed to raise its fed funds target to 4% or 4¼% by year end. In other words, financial markets assume short-term interest rates will have to move this high, this quickly to contain inflation.

Neither the Fed nor anyone knows how far interest rates will have to rise or how much securities the Fed should sell to regain control of spending and inflation.

Our monetary analysis indicates there was an increase in the money supply in June. Nonetheless, financial markets behave as if monetary policy already has turned restrictive.

Neither the money supply nor the spread between short and longer-term interest rates point to monetary restraint. However, exceptionally sharp increases in short-term rates can lead to monetary restraint. By signaling its future moves, the Fed may accelerate the market's reaction.

Either way, it appears we are heading for a more restrictive monetary policy in the months ahead. This is not a favorable environment for stocks. Stay defensive.

A Look Back

Today's report on June retail sales rose at a strong 13% annualized increase for the month. Second quarter sales were up at a 9% annual rate from the first quarter. With inflation at an 11% rate for the quarter, real spending was down.

Forces Impacting the Near-term Outlook for Stock Prices

Economic Fundamentals: **weak**

Stock Valuation: over-valued **22%**

Monetary Policy: **shifting to restraint** Recommended Stock Exposure: **25%**

The rapid increase in retail sales combined with rapid inflation indicate interest rates are heading higher.

Wednesday's report on consumer prices revealed a 1.3% monthly increase in all prices. This is a 17% annual rate for the month and brings the year-over-year rate to 9%. Core inflation (ex-food and energy) was up at a 9% annual rate for the month, 6% over the past year.

Kudos to my friend and associate Gary Meyers who almost a year ago predicted the inflation rate would reach 15% or higher. He was correct. While I expect inflation has begun to moderate, Gary expects it to remain close to current levels.

The upward drift in initial weekly unemployment claims continued into the week ending July 9th. Initial unemployment claims for the past two weeks averaged close to 240,000. Claims have risen each month since hitting a low of 175,000 in March.

A Look Ahead

On Monday, the Homebuilders' survey will provide the first read on new housing activity in early July. Last month's report registered a 67. This is down from the low 80s at the beginning of the year, but still comfortably above break-even at 50. Expect a further decline to the mid-60s, or lower.

The Homebuilders' survey provides the most up-to-date data on new housing activity. It tends to be more informative than the rest of the housing data, which are for June.

The Lighter Side of Political Economy

Still searching for appropriate, relevant humor. If you find anything, please email it to me.

Genetski golf: 96 hdcp. 19

Comment: *Back in the 90s*

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