Chart of the Month

July 2022

The Commerce Department announced this morning that the real Gross Domestic Product (GDP), which is adjusted for inflation, declined 0.9% in the second quarter. This report, the first of three with a revised estimate in August and a final tabulation in September, is on the heels of a 1.6% drop in the first quarter. The back-to-back contractions meet the technical definition of recession as two negative quarters of GDP growth.

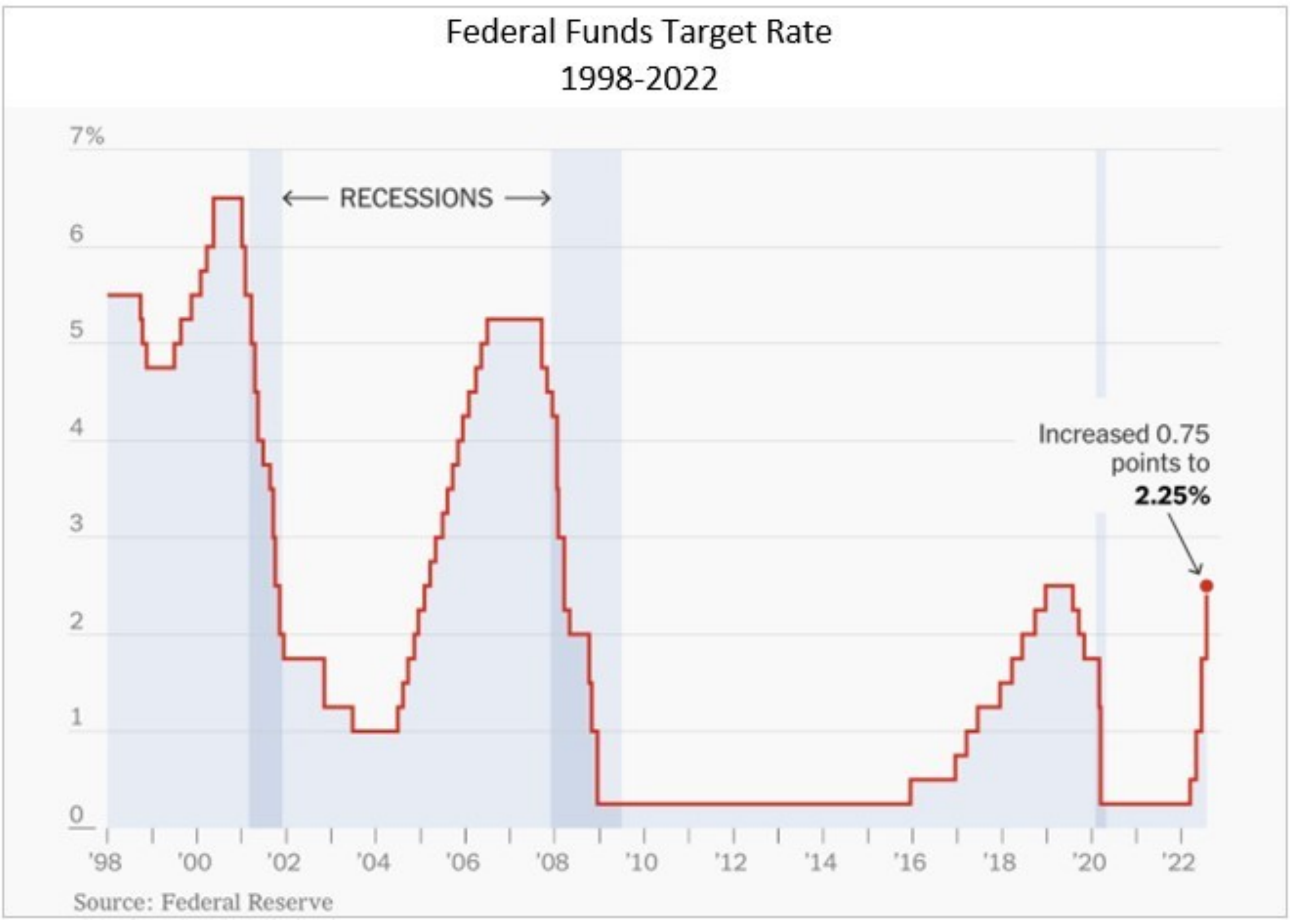
However, the National Bureau of Economic Research, the official arbiter of recessions and expansions, is not expected to declare a recession at this time due to the strength in the labor market. That said, since World War II, there has never been a case where the economy avoided a recession after experiencing two consecutive quarters of negative growth.

Meanwhile, whether the economy *is* or *is not* currently in a recession, we believe the most relevant point as it relates to the financial markets is that inflation peaked in the middle of June and stock indexes *bottomed* and bond yields *topped* at about the same time.

The S&P GSCI, an index consisting of 24 commodities, has fallen roughly 20% during the past seven weeks. Crude oil, the largest component, has tumbled from $123 to $97 per barrel during this period. Industrial metals, agricultural, and livestock prices have all descended as well, signaling that inflation and the economy are softening.

Stock prices, as measured by the S&P 500, have advanced 10% from the bottom last month and the yield on the 10-year U.S. Treasury has cascaded 78 basis points (from 3.48% to 2.70%), driving bond prices to their highest levels since April. With the S&P 500 now in the 4000s, we believe the bear-market low of 3666 on June 16 will hold for this cycle. Without predicting if the rebound is a summer rally or the start of a new bull market in stocks and bonds, it is our contention that the worst for both is squarely behind us.

While the Federal Open Market Committee (FOMC) unanimously hiked the fed funds rate by 0.75% yesterday for the second consecutive meeting (raising the benchmark to a range of 2.25% to 2.50%), our focus is on the fed funds futures market, which is betting that the pace of increases will slow going forward with projections of 0.50% in September, 0.25% in November, and either 0.25% or no change in December, placing the rate in the range of 3.00% to 3.50% by the end of the year. Furthermore, the fed funds futures market is pointing to a rate *cut* in the first half of next year. If enacted, such a move would be bullish, a pivot that the financial markets may be responding to now as stock prices are a *leading* rather than a *lagging* indicator.



Lederer & Associates
Investment Counsel
5305 East 2nd Street, Suite 201, Long Beach, California 90803
Tel: (562) 434-5305 ▲ Fax: (562) 434-5306
www.lederer-associates.com