

We're Not There Yet

Inflationary concerns in the August Consumer Price Index (CPI) report, released last week, sent stocks lower as there is not yet sufficient data to deter the Federal Reserve from its path of increasing interest rates. The S&P 500 Index was -4.7% for the week, the Dow was -4.1%, and the NASDAQ was -5.8%. The 10-year U.S. Treasury note yield increased to 3.447% at Friday's close versus 3.321% the previous week.

The CPI report showed consumer prices were +0.1% month-over-month and +8.3% year-over-year. Excluding food and energy, core prices were +0.6% month-over-month and +6.3% year-over-year. The monthly change in core prices remained unexpectedly high and likely caught many investors by surprise, prompting the selloff in the equity markets. Higher core inflation will likely keep the Federal Open Market Committee (FOMC) on track to raise the Fed funds rate by 0.75% at its meeting this week.

Looking ahead to third quarter earnings, the current consensus expectation is 5.0% earnings growth on 9.8% revenue growth. For CY2022, earnings growth is currently forecast at 7.9% on 11.7% revenue growth. This week nine companies in the S&P 500 Index are scheduled to report earnings.

In our *Dissecting Headlines* section, we look at what we might hear from the FOMC this week.

Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	-4.7%	-17.8%	Aggregate Bond Index	-0.8%	-11.5%
Dow Jones Industrial Average	-4.1%	-13.9%	U.S. Dollar Index	0.7%	14.4%
NASDAQ 100	-5.8%	-26.9%	WTI Crude Oil	-1.9%	13.2%
Russell 2000 (Small Cap Index)	-4.5%	-19.2%	Gold	-2.4%	-8.4%
International Stocks (MSCI ex-US)	-2.8%	-20.9%	Real Estate (US REIT Index)	-5.6%	-22.0%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: FOMC Meeting

The Federal Open Market Committee (FOMC) is holding its September meeting this week. On Wednesday afternoon, the committee is scheduled to announce its decision on interest rates. We believe the FOMC is likely to raise the Fed funds rate by 0.75% to a target range of 3.00% - 3.25%. The Fed funds rate has not been above 3.00% since prior to the financial crisis in 2008. However, in a longer historical context, this can be seen an average, or normalized, rate.

Given the persistence of inflation above a target range of 2% to 3%, the FOMC is likely to continue moving interest rates higher, to a more restrictive level, in order to reduce inflation by negatively impacting demand in the economy. Employment has remained relatively strong since its post-pandemic recovery. A backdrop of full employment gives the FOMC the ability to raise rates to fight inflation in keeping with its twin mandates of full employment and price stability.

We are likely closer to the end than the beginning of the tightening cycle. Investors have been watching inflation data for clues on the FOMC's next move. We expect an eventual slowing in the pace of rate increases as inflation moves in the direction of more normalized levels. While the Fed may keep monetary policy in restrictive territory for an extended period of time, depending on its impact on both inflation and employment, it will eventually return to a normalized level on rates.

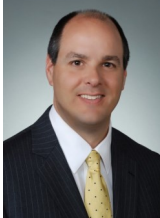
The Federal Reserve is also unwinding its balance sheet. The Fed has been reducing its balance sheeting since June 1st by not reinvesting the proceeds of maturing securities. It has been letting \$30 billion of treasury securities and \$17.5 billion of mortgage securities run off each month. Starting in September, that number has increased to \$60 billion of treasury securities and \$35 billion of mortgage securities each month. As a consequence, we have also seen interest rates rise along the yield curve with the ten-year treasury note rising to a yield of 3.447% this past Friday. The upward movement in rates has also moved mortgage rates above 6%. This is also part of the plan to reduce inflationary pressures and restore the Fed's balance sheet to its pre-pandemic levels.

The NovaPoint Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).



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