August was a tale of two markets, split down the middle by the annual Jackson Hole Symposium.  The first two weeks of August were a [strong](https://www.cnbc.com/2022/08/15/stock-market-news-futures-open-to-close.html) showing for major U.S. stock market indexes, but Federal Reserve commentary from the [Jackson Hole Symposium](https://www.axios.com/2022/08/25/jackson-hole-fed-guide) had a chilling effect.

Overall, for the month of August, the S&P 500 declined by [4.24%](https://www.spglobal.com/spdji/en/commentary/article/us-equities-market-attributes/#:~:text=%2D%20The%20S%26P%20500%C2%AE%20was,YTD%20return%20to%20%2D14.46%25.), the Nasdaq 100 shed [5.22%](https://www.investing.com/indices/nq-100-historical-data), and the Dow Jones Industrial Average decreased by [4.06%](https://www.spglobal.com/spdji/en/commentary/article/us-equities-market-attributes/#:~:text=%2D%20The%20S%26P%20500%C2%AE%20was,YTD%20return%20to%20%2D14.46%25.).

**Fed & Inflation Reduction**

The talk of the town remains reducing inflation along with the timeline and level of Fed aggression in doing so. Although there was no Fed meeting in August, there was the yearly Jackson Hole Symposium, and it showed Federal Reserve Chair Jerome Powell is on an [aggressive mission](https://www.advisorperspectives.com/commentaries/2022/09/02/fed-aggression-and-upcoming-midterm-elections-add-to-september-jitters).

In the meeting of central bankers from around the world, Powell indicated continued vigilance in conquering inflation and used several keyphrases that got the market’s attention. Specifically, Powell mentioned that the Fed will “use our tools forcefully”  and “for some time”–and that these are some of the “[unfortunate costs of reducing inflation](https://www.federalreserve.gov/newsevents/speech/powell20220826a.htm#:~:text=Moreover%2C%20there%20will%20very%20likely,unfortunate%20costs%20of%20reducing%20inflation.).”

**Stock Market Reaction**

Following the Fed commentary, the takeaway for U.S. equities seemed to be that the Fed’s rate hike agenda may last for an extended period and that higher rates are even more likely as the inflation battle continues.

Inflation metrics released in August showed Consumer Price Index (CPI) [unchanged in July](https://www.bls.gov/opub/ted/2022/consumer-price-index-unchanged-over-the-month-up-8-5-percent-over-the-year-in-july-2022.htm) but still higher by 8.5% year-over-year.

**Bond Yields Rise**

When interest rates increase, bond prices decrease and bond yields rise. Unsurprisingly then, the benchmark [10-year note yield](https://www.cnbc.com/quotes/US10Y) had a whopper of a month during August, settling at 3.132% on the final day of trade for the month, up from July’s monthly settlement of 2.641%. [Shorter-duration interest rates](https://www.etftrends.com/investors-turned-to-short-term-bond-etfs-in-face-of-more-fed-rate-hikes/), including 5-year and 2-year notes, also rose in August–good news for savers.

While interest rates have risen more sharply in 2022 versus recent years, it’s wise to keep in mind that 10-year note yields have been much higher in the past, impacting the time’s mortgage rates. In fact, 30-year mortgage rates [exceeded 17%](https://fred.stlouisfed.org/series/MORTGAGE30US) in 1981 and 1982.

Nobody knows how high rates will go during this cycle, but it’s always good to have a basis for comparison relative to the country’s last inflationary period.

**Employment Picture**

The overall employment picture remains healthy, with the most recent non-farm payrolls report showing 315,000 jobs created in August, just under the [Dow Jones estimate of 318,000](https://www.cnbc.com/2022/09/02/august-2022-jobs-report-.html).

Unemployment, however, increased in August, [climbing to 3.7%](https://www.cnbc.com/2022/09/02/august-jobs-report-why-a-higher-unemployment-rate-may-be-good.html) from 3.5%. There’s talk this could be attributed to more Americans entering the labor force and looking for work.

The good news is that more Americans seeking employment provides an optimal backdrop for continued rate hikes, given the Fed’s dual mandate for maximum labor participation and price stability.

**Oil Prices Quiet**

It’s been a quiet summer for crude oil prices, and that’s clear at the gas pump. Labor Day weekend drivers surely appreciated it, with the U.S. national [a](https://www.reuters.com/business/fed-seen-keeping-aggressive-rate-hikes-unemployment-rises-2022-09-02/)[verage price per gallon](https://gasprices.aaa.com/) standing at $3.779 as of Tuesday afternoon.

However, with [OPEC+ announcing a small cut](https://www.cnbc.com/2022/09/05/oil-opec-surprises-energy-markets-with-a-small-production-cut.html)in oil production on Monday, prices could rise again. It may be a good time to fill’er up!

**Fall & The Fed**

As fall approaches, attention will turn to the [September Fed meeting](https://www.reuters.com/business/fed-seen-keeping-aggressive-rate-hikes-unemployment-rises-2022-09-02/). Another rate hike is widely expected at the Fed meeting on September 20-21. As of September 6, there’s a 26% chance of a 50 basis point hike and a 74% chance of a 75 basis point hike, per the [CME FedWatch Tool](https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html).

Economic data is poised to dominate in September, with housing and Gross Domestic Product (GDP) data reports following the Fed meeting later this month. Consumer strength will also be watched heavily this month via retail sales data showing back-to-school spending.

With that overview noted, **how are things going in your neck of the woods?** If higher interest rates have been on your mind or if there is anything else we can help with, please feel free to reach out by phone or email.