At Passage Wealth it is important that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that deserve the most attention this month. If you have any questions or would like to continue the conversation, please reach out.

August's inflation surprised economists and the markets, and not the good kind of surprise. Lower gas prices helped somewhat, but the overall Consumer Price Index rose 0.1% over the month and 8.3% over the year[1]. A Bloomberg survey showed economists had expected prices to fall 0.1% and the direction of the surprise sent markets tumbling, with the S&P 500 falling over 4% the day the report was released. Lower gas prices were just about the only glimmer of good news since prices rose on most other major items and core prices, which exclude food and energy, increased 0.6% in August.

While the Fed is trying to cool the economy, the labor market has yet to get the news. Initial jobless claims continue to hover in the low- to mid-200,000s[2] and the economy continues to add jobs, with 315K new jobs in August, following July's 526K new jobs[3]. Robust job gains have significantly calmed recessionary fears and raised hopes that it could be possible, even if not probable, for the Fed to navigate a soft-landing. However, a continued hot job market will also force the Fed to act more aggressively to try to tamp down inflation.

Retail sales rose 0.3% in August, though sales in July were revised down to -0.4%[4]. While lower gas prices took a toll on headline sales, other categories, such as furniture, online sales, and electronics, were also weak. However, consumers continue to pivot spending to services, with restaurants up 1.1%. As consumers continue to adjust their spending away from goods, strength in services could signal a healthier consumer than the headline figure over the last two months may indicate.

The bottom line: The Federal Reserve continues to have a difficult road ahead. Inflation continues to be stubborn with prices rising across much of the economy and a major driver of that is a tight labor market that keeps upward pressure on wages, which then flow into the rest of the economy. Major components of CPI, such as shelter, have yet to show any sign of letting up. While the risk of a recession in the first part of the year has been put to rest, the inflationary environment is likely to put the Fed in a hawkish position for at least a bit longer, which may take its toll on future economic performance. Markets reacted swiftly following August's inflation report and bouts of volatility may continue until there is a clear case that inflation is moving in the right direction.

Sources:

1. Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm
2. Department of Labor, https://oui.doleta.gov/unemploy/claims.asp
3. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm
4. Census Bureau, https://www.census.gov/retail/index.html

Disclosures