Economic Outlook

Timely insights to help you navigate today's markets.

FINANCIAL LIFE CONCEPTS
Financial Planning with Integrity

By Christian Chan, CFA, Senior Vice President, Chief Investment Officer August 1, 2023

A Look Back on July

WHERE ARE WE?

- For many of us, July 2023 will be remembered for Oppenheimer, Barbie, or Taylor Swift. For anyone questioning the strength of the US consumer, I advise them to attend any of Swift's remaining "The Eras Tour" stops.
- We also saw a continuation of three themes we've been talking about over the last several months–falling inflation, resilient growth, and emerging signs of stress in consumers and corporations.
- *Inflation: Falling, but we're not out of the woods yet*
  - The June CPI report showed that headline and core inflation rates both declined on a year-over-year basis. In fact, headline inflation declined to 3% year-over-year, the lowest level since March 2021.
  - We remind investors that the "base effect" has accounted for much of the rapid decline in year-over-year inflation rates. Because year-over-year inflation measures include the last twelve months, what drops off the trailing twelve-month window is just as important as what gets added on. We may actually see an increase in year-over-year inflation in the next few months.
  - Regardless, the slowdown in inflation is welcome news for consumers, investors, and policy-makers.
- *Growth: Higher interest rates, but consumers have been able to shake it off*
  - Second quarter GDP came in at a very respectable 2.4%, and the service sector rebounded smartly.
  - The economy may be less sensitive to rate hikes today because borrowers (home buyers and corporate bond issuers) have locked in low long-term interest rates over the last five years.
  - The consumer is more confident today than at any point in the last three years. The labor market is strong and fiscal stimulus (Inflation Reduction Act and CHIPS Act) has provided a tailwind. However, we are seeing signs of stress in the lending system, certain high-yield bond issuers, and lower consumer income brackets.

WHAT YOU SHOULD DO:

- It's tough to tell how long these two trends of falling inflation and resilient growth will last. But the longer inflation falls without a meaningful decline in growth, the more likely it is that we'll get a soft landing.
- We remind investors to stay disciplined in a long-term investment strategy. We believe the long-term outlook for core assets, like stocks and bonds, remains sound. Higher interest rates provide a great base upon which to build a portfolio in today's environment.

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