

OBSERVATIONS

- Oil (WTI) closed the week at near \$90/bbl — close to seven-month lows — following softer than anticipated economic data from China.¹
- U.S. crude oil exports reached a record 5 million barrels per day as West Texas Intermediate (WTI) crude oil has traded at steep discounts to Brent crude oil making WTI more attractive for foreign buyers.²
- The People's Bank of China (the country's central bank) cut two key interest rates by 0.10% while injecting nearly \$60 billion into the financial system in an effort to stem the ongoing slowdown. Recent data released last week showed industrial production rose 3.8% from this time last year, expectations were for a 4.5% growth rate. Retail sales were similarly softer than expected as consumer spending rose 2.7% from a year ago versus expectations of a gain of 5.0%.³
- U.S. homebuilder sentiment (NAHB/Wells Fargo Housing index) declined for the eighth straight month, the worst stretch since 2007. The index reached 49, a figure not seen since May 2020 during the pandemic.¹
- July retail sales came in unchanged from the prior month, slightly below expectations for a gain of 0.1%. Excluding auto and gas, retail sales were stronger than expected, rising 0.7% month-over-month.¹
- The unemployment rate has fallen to record lows for twenty-six states throughout 2022, Minnesota boasts the lowest jobless rate of 1.8%.¹

EXPECTATIONS

- Minutes from last month's Federal Reserve meeting hinted at the potential for a more measured approach to the Fed's rate hike cycle. "Participants judged that, as the stance of monetary policy tightened further, it likely would become appropriate at some point to slow the pace of policy rate increases while assessing the effects of cumulative policy adjustments on economic activity and inflation." Markets are looking forward to Fed's meeting this week in Jackson Hole for further guidance, but currently expect another 50bps increase in the Federal Funds rate at the September meeting.⁴
- Housing prices peaked? The National Association of Realtors' affordability index dipped under 100 for the first time since 1989. Souring builder sentiment, rising home purchase cancellations, and rising mortgage rates likely to continue to weigh on home prices in the coming months.¹
- Further upside in markets is likely constrained for now. The S&P 500 has recovered 50% of the losses experienced in the first half of the year. The index has reached technical levels of resistance, notably the 200-day moving average, which is likely to keep a lid on further advances barring any catalysts.¹

ONE MORE THOUGHT: Inflation Reduction Act Revives Biden Agenda⁵

Last week President Biden signed the Inflation Reduction Act (IRA), a multi-pronged bill that resurrected portions of Biden's earlier nearly \$2.4 trillion Build Back Better (BBB) initiative. The IRA, unlike the BBB, contains more tax increases than new spending initiatives. The IRA includes a 15% minimum tax on corporations that is likely to raise about \$313 billion over the next decade in new revenues. The law also contains a provision to tax corporate share buybacks at 1% that could raise another \$55 billion over the next 10 years. The law also contains provisions to raise

¹ Bloomberg LP

² <https://www.reuters.com/business/energy/oil-prices-recover-6-month-lows-after-drop-us-stockpiles-2022-08-17/>

³ <https://www.wsj.com/articles/china-growth-slows-across-all-fronts-in-july-as-real-estate-weighs-11660545532>

⁴ Bloomberg LP, <https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20220727.pdf>

⁵ <https://www.crfb.org/blogs/whats-inflation-reduction-act/>; <https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/15/by-the-numbers-the-inflation-reduction-act/>

the methane tax for firms drilling for oil and gas on Federal land as well as funds to help the IRS increase audits and crackdown on tax evasion. These provisions could raise another \$140 billion. The law also provides for Medicare to negotiate drug prices and caps Medicare payments on certain drugs that should result in \$200 billion in savings to the Federal government. The law does include new spending provisions as well including \$100 billion to subsidize and expand healthcare for families covered under the ACA (Obamacare) and offset costs associated with a variety of prescription drugs and vaccine programs. The law further includes a series of environmental provisions to incentivize the transition to clean energy. This includes tax rebates for electric vehicles, home solar panels, rebates for energy efficient home appliances, and money for utilities to increase the production of renewable energy. In total, about \$386 billion in new environmental spending is included in the IRA. While the IRA is a far more modest law than was envisioned by Biden’s Build Back Better initiative, it was able to pass a nearly evenly split Senate and provides Democrats the ability to campaign this Fall that they delivered on substantial portions of the President’s agenda. The November midterm elections will determine how effective the IRA is in motivating Democratic votes.

CHART OF THE WEEK

Inflation Reduction Act – New Spending and Revenue/Savings by Type (\$bil)



Source: Clearstead, Whitehouse.gov, Committee for Responsible Government, Tax Foundation Aug-2022

The Inflation Reduction Act is forecast to generate about \$830 billion over the next decade and require spending of about \$486 billion.

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