

Last Month in the Markets – August 1st – 31st, 2022

Month Close	19,330.81	3,955.00	31,510.43	11,816.20	76.16 ¢	\$1,726.20	\$ 89.55
month +/-	- 632.11	- 175.29	- 1,334.70	- 574.49	- 1.99 ¢	- \$ 55.60	- \$ 9.07
month +/- %	- 3.17%	- 4.24%	- 4.06%	- 4.64%	- 2.55%	- 3.12%	- 9.20%
52 wk HIGH							\$ 115.44
52 wk LOW							\$ 61.06
YTD +/- %	- 8.92%	- 17.02%	- 13.29%				
1Yr +/- %	- 6.08%	- 12.55%	- 10.8				

(source: Bloomberg <https://www.bloomberg.com/markets>, MSCI <https://www.msci.com/end-of-day-data-search> and ARG Inc. analysis)

What happened in August?

Last month was tumultuous for equity investors. Much of the volatility has been and will be, based on inflation, the reaction by central banks, and the anticipated actions of central banks. Equities, represented by the major North American indexes, peaked in the middle of the month. It had been a series of stepped gains for the first half of the month before beginning a gradual decline that accelerated near the end of the month. From their mid-month peak until the end of the month, the TSX dipped 4.6%, the S&P500 fell 8.1%, the Dow dropped 7.7% and the NASDAQ plummeted 10.0%. The All-Country World Index (ACWI) lost 6.5% of its value by month's end from its August peak. Bloomberg & ARG calculations

(Source: Bloomberg <https://www.bloomberg.com/markets>, MSCI <https://www.msci.com/end-of-day-data-search> and ARG Inc. analysis)

The quickening decline began near the end of the month and immediately followed the address delivered by Jerome Powell, US Federal Reserve Chair, on August 26th. Speaking at the Fed's Jackson Hole Symposium, Powell outlined three lessons of the past that will be applied to the current high inflation situation:

1. Central banks can and should take responsibility for low and stable inflation. Although the Fed's actions only address the demand-side of the supply/demand imbalance that is driving current inflation, their responsibility is not reduced.
2. The public's expectations about future inflation can play an important role in setting the path of inflation over time. The anticipation of high inflation can become entrenched in decision-making for businesses and households, because "inflation feeds, in part, on itself".
3. The Federal Reserve "must keep at it until the job is done". The Fed must act with resolve now by taking forceful and rapid steps to moderate demand, align it with supply and lower expectations of high inflation.

At this closely watched meeting, which is also attended by international central bankers, Powell laid out the Federal Reserve's relatively aggressive stance to tame inflation. The rapid, negative reaction by equity markets suggests that a gentler approach than Powell outlined was anticipated. It appears that analysts had hoped that the Fed would scale back its inflation-fighting measures and provide less resistance to economic growth and corporate profitability. No measures were announced, but prior, unfounded speculation that a less restrictive approach could be implemented led to the drop in equity values. Chair Powell's full remarks can be found at <https://www.youtube.com/watch?v=zJ3sEeArWlw>

The last economic news of August was released on the 31st. The Canadian economy grew by 0.1% in June, 0.8% in the second quarter and at an annualized rate of 3.3% during the second quarter. Household spending grew for services and semi-durable goods, business increased inventories, machinery and equipment and structures, while housing investment and durable goods orders declined. This was the fourth consecutive increase in quarterly GDP. [StatsCan source](#)

U.S. payrolls grew by just 132,000 in August according to ADP Research, the smallest gain since February 2021. Gains were made in leisure, hospitality, trade, transportation, utilities, and construction with cuts in finance, information, business services, education, and health services. The U.S. government will release its official jobs data for August through the Bureau of Labor Statistics on September 2nd. <https://adpemploymentreport.com/>

What's ahead for September and beyond?

The investing path will be defined by inflation, and the actual and predicted monetary policy that reacts to it. With inflation high and rising in developed economies it is necessary for several countries and regions to act in concert with similar actions occurring with similar timing.

The Governing Council of the European Central Bank (ECB) meets on September 8th to set monetary policy. The anticipated interest rate increase is 50 or 75 basis points. The Euro has lost ground against other currencies (12% down against USD) pushing the cost of imports higher, worsening inflation further. The ECB's action may foreshadow Fed and Bank of Canada moves later in September. <https://www.bloomberg.com/news/articles/2022-08-29/ecb-sets-stage-for-another-big-hike-with-jumbo-move-possible>

One of the next actions from the Federal Reserve will be the full implementation of its [Quantitative Tightening](#) program to reduce its bond portfolio. In September, the Fed will lower its bond holdings by \$16 billion, and another \$13 billion in October. These amounts represent the first time in the last three years that the total balance of the bond portfolio will be reduced. The reduction of supply will tighten the availability of funds and raise longer-term interest rates. Quantitative Tightening source

Wagner Investment Management Team contributors: Susyn Wagner & Karen Routledge

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