00;00;05;01 - 00;00;30;08
Scott Colbert
Good morning. It's Monday, August 14th, and the markets are open and trading sideways. The S&P 500, of course, this year has, you know, generated a spectacular result, but it's a little bit off of its highs. It's only up 17.4, 3%, having been up almost over 20% at the end of July. Many small cap stocks that participate in this rally, but to a much lesser extent with the average mid and small cap stock up something closer to 8 to 10%.

00;00;30;15 - 00;00;48;21
Scott Colbert
Large cap international stocks have done even better in the developed markets, up more than 12%. In emerging markets, stocks have been the laggard around the planet, only up just a bit more than 6%. Bonds aren't helping you out a lot this year as interest rates have slowly risen. Of course, we know on the short end they've jumped basically 75 basis points.

00;00;48;23 - 00;01;09;11
Scott Colbert
And even in the long and the ten year Treasury has gradually risen, it's about 4.1% today, the broadest measure of the bond investment grade bond market as the Bloomberg aggregate index. And it's only up about 64 basis points so far year to date. In fact, you've done better with cash than you have with bonds. So far this year.

00;01;09;14 - 00;01;31;17
Scott Colbert
In terms of our economic overview, we certainly know inflation is slowing. As recently measured by the CPI, we've had a slight economic acceleration or reacceleration as measured by GDP. And this, of course, has raised everybody's spirits and increased the probability of a likely soft landing. But history still suggests to us that we ought to remain cautious in terms of inflation.

00;01;31;22 - 00;01;52;28
Scott Colbert
We got the CPI last week and only came out at 2/10 of a percent. So year over year CPI did increase from 3% to 3.2% as a as a month ago, we dropped off a very, very large inflationary front and this month we dropped off a very, very tiny inflationary print from a year ago. More, though, to the Fed's focus is core inflation.

00;01;53;03 - 00;02;17;27
Scott Colbert
And core inflation only fell 1/10 of a percent from 4.8% on a year over year basis to 4.7%. Inflation still remains relatively sticky because of the service side of our economy and in particularly the housing component, which is still clocking in at a 7.7% annualized pace. Fortunately, we know that the housing component will be declining as the year progresses.

00;02;18;01 - 00;02;55;12
Scott Colbert
In terms of the slight economic reacceleration, GDP for the second quarter came in at 2.4%. That was up from the 2% print in the second quarter. Still, when we look back historically, we've seen basically a cooling in nominal growth, but an even faster rollover and inflation. For example, over the past year, nominal growth has been 6.3%. But the GDP deflator has spawned a 3.6%, which means that real growth, adjusted for inflation over the last 12 months is a very solid positive 2.6%.

00;02;55;14 - 00;03;22;22
Scott Colbert

If we go back a year, nominal growth, of course, was higher, better than 9%, but inflation was also higher than 7%. And so while nominal growth has cooled, inflation has cooled at an even quicker pace, basically accelerating year over year GDP. Of course, with this declining inflation shown and this reacceleration of economic growth, a lot of people are forecasting no recession at all now.

00;03;22;24 - 00;03;44;11
Scott Colbert
And even the Federal Reserve's main forecast, which had called for recession by the end of the year, now suggests that if there is one, it's sometime out into 2024. So why aren't we willing to declare mission accomplished? Well, rather, obviously, interest rates are much higher today than they were about a year and a half ago. And we really don't know what the impact of that is likely to be.

00;03;44;13 - 00;04;08;14
Scott Colbert
Mortgage rates are over seven and a half percent and credit card debt has surged to 21%. And of course, we all know that auto loans are materially higher. The Fed continues to quantitatively tighten, which means they're draining liquidity from the system. And of course, as liquidity drains problems and cracks usually ensue. And we've seen that already this year with those three or four banks that went quickly bankrupt earlier in this year.

00;04;08;17 - 00;04;35;09
Scott Colbert
We work just suggested it's likely to declare bankruptcy soon and yellow freight declared bankruptcy just last week. I guess I don't also have to mention that Fitch downgraded the U.S. government debt. Key signs certainly remain of the slowdown. One would be the inversion of the yield curve and suddenly are the decline in the leading economic indicators. In fact, we will get new leading economic indicators this week and they are likely to be down for the 16th consecutive months.

00;04;35;11 - 00;04;56;20
Scott Colbert
We also lot of suggest that S&P 500, while better than expectations, are still down on a year over year basis. And finally, employment growth is cooling. And we've just had the last two consecutive months employment growth closer to 200,000 than the previous 400,000 plus jobs that we were creating last year. Finally, there are some warning shots we probably ought to pay attention to.

00;04;56;22 - 00;05;27;01
Scott Colbert
The Russian ruble has continued to decline, is now at a 16 month low as the war continues relatively unabated. Overseas, China is facing its own internal economic challenges. They've had a large property developer recently default and an internal trust company missed interest and principal payments. We've seen energy prices sneaking up slowly. You've probably noticed at the gas pump, and almost every recession I can remember is preceded generally by a rise in energy prices.

00;05;27;03 - 00;05;59;08
Scott Colbert
And finally, home affordability has reached an all time low as mortgage rates have reached seven and a half plus percent, while home prices have continued to increase. Affordability is bound to weigh on the consumer eventually. And what we haven't had yet, as we usually have with most recessions, is a crack in the housing market. So we've had a rather sluggish August so far, and

we'll be back in a couple of weeks to see how the entire month is progressing and to see if any of these warning shots are playing out in terms of market returns going forward.

00;05;59;11 - 00;06;21;08
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00;06;47;01 - 00;07;09;02
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00;07;09;09 - 00;07;27;17
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00;07;27;19 - 00;07;45;22
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