At Passage Wealth, it is important to us that you are well informed about what is happening in the markets. Here are a few of the key topics of conversation that we feel deserve the most attention this month. If you have any questions or would like to continue the conversation, let us know, and we appreciate the opportunity.

The market got exactly what it was expecting from the Fed in May – and didn't like it. The Federal Reserve raised rates by 50 basis points, while also announcing they would begin to shrink the Fed's balance sheet in June.

Interestingly, Fed Chair Powell indicated a 75 basis point hike was not considered, though multiple 50 basis point hikes are on the table for the next couple of meetings. Initial market reaction was positive, with the S&P 500 rallying 2.99% the day of the announcement, only to quickly turn negative over the following days. In our opinion, the Fed will continue to focus on fighting inflation for the foreseeable future – even if that means markets stay volatile.

Inflation continued to push up in April, though at a slightly slower pace than March, with the Consumer Price Index rising 8.3% over the year and 0.3% over the month[1]. While there was a slowdown in headline numbers, core inflation, which excludes food and energy, accelerated in April and rose 0.6% over the month compared to 0.3% in March. The acceleration in core inflation was not what the Fed wanted to see and may further increase their resolve to fight inflation.

Economists we caught off guard by a negative first quarter GDP report showing the US economy shrank at a 1.4% annualized rate[2] to start the year. Economists surveyed by Bloomberg had expected the economy to grow at a 1.0% annualized rate. Weighing on growth was a surge in imports and a fall in exports, as well as a decline in inventories and government spending. However, the headline number may mask a resilient consumer in the face of rising prices, with personal consumption rising at a 2.7% annualized rate, higher than the 2.5% seen at the end of 2021. The bottom line is we may be in a recession, but recessions aren't always accompanied by sustained and deep market losses.

Contrary to what we would expect to see in a potential recessionary environment, the jobs market remains hot with 428,000 new jobs in April[3]. Underneath the headline, the labor force participation rate declined, likely putting further strains on companies trying to find talent. While average earnings rose 0.3%, it was a slightly slower pace than March's 0.5% rise. News like this gives us hope that if a recession occurs that it may be mild.

The bottom line: While inflation has finally shown some signs of cooling, it appears to be cooling at a slower rate than many had hoped and just a few days after the Fed effectively took larger rate hikes off the table for now. Together with an economic contraction in the first quarter makes for an uncertain environment where recent market volatility may not be welcome but isn't terribly surprising either. The bright spot remains the consumer, thankfully the largest section of the economy, who has shown resilient demand in the face of rising prices and helped by a continued strong jobs market.

Sources:

1. Bureau of Labor Statistics
2. Bureau of Economic Analysis
3. Bureau of Labor Statistics

Disclosures

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

The S&P 500® Index, or the Standard & Poor's 500® Index, is a market-capitalization-weighted index of the 500 largest U.S. publicly traded companies.

Passage Wealth is a part of Thrivent Advisor Network, LLC ("Thrivent"), a Registered Investment Adviser ("RIA"), located in the State of Minnesota. Thrivent provides investment advisory and related services for clients nationally. Thrivent will maintain all applicable registration and licenses as required by the various states in which Thrivent conducts business, as applicable. Thrivent renders individualized responses to persons in a particular state only after complying with all regulatory requirements, or pursuant to an applicable state exemption or exclusion.

Advisory Persons of Thrivent provide advisory services under a practice name or “doing business as” name or may have their own legal business entities. However, advisory services are engaged exclusively through Thrivent Advisor Network, LLC, a registered investment adviser. Passage Wealth and Thrivent Advisor Network, LLC are not affiliated companies. Information in this message is for the intended recipient[s] only. Please visit our website passage-wealth.com for important disclosures.