Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

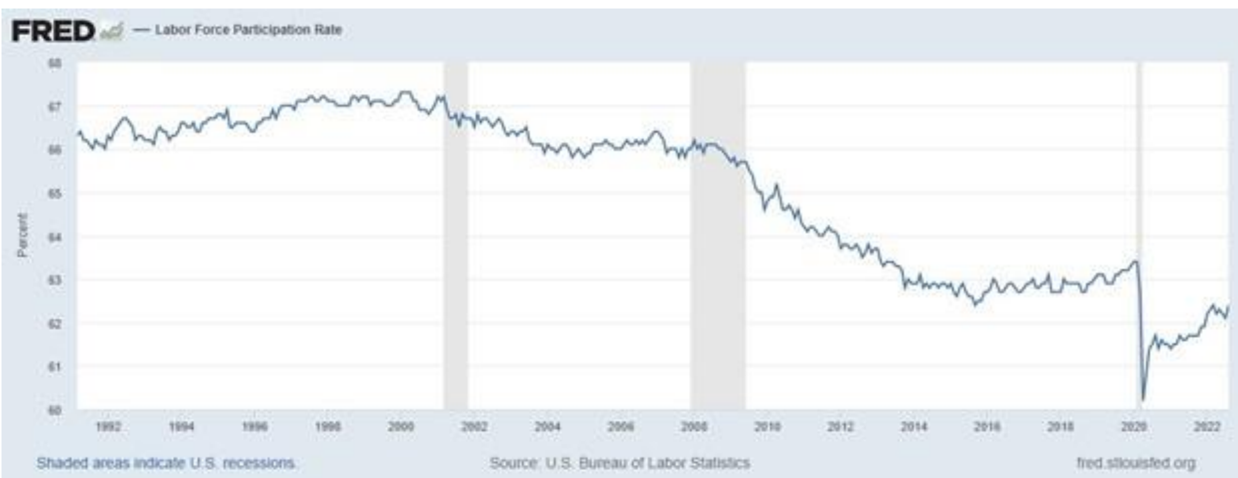
The P&A Blog
September 7, 2022

August Market Recap

By Dan Frost

The August employment report continued to point towards a robust environment for jobs, but with some evidence of softness beginning to appear. The unemployment rate ticked up by 0.2% to 3.7% in August, which is still near the lowest we've seen in the past 50 years. Payrolls increased by 315,000, but the numbers for the past two months were revised downward by a total of 107,000, leaving the net gain at 208,000.

Another measure that is not as widely publicized, but still important, is the labor force participation rate. It measures the number of people who are either working or looking for work as a percentage of the total working age population. This number peaked at 67.3% in the year 2000 before it began to steadily decline. By 2015 it had declined to 62.4% and remained below 63% for the next several years. However, by mid-2019 as the unemployment rate reached historic lows the participation rate had started to rise steadily, reaching 63.4% by January of 2020. With the onset of the pandemic the participation rate plummeted along with the rest of the employment figures, dropping to 60.2%.   With the latest employment report the participation rate rose to 62.4%, tying the high for the post-pandemic recovery.



Much of the decline in the participation rate during the past two years is estimated to be due to workers who decided to retire. According to the Federal Reserve Bank of St. Louis, of the approximately 4.2 million people who had left the workforce as of the second quarter of 2021, slightly over half were due to excess retirements.

The Stock Market

Stocks resumed their downward trend in the month of August, with most of the major indexes falling anywhere from 4% to 5%. The rally that began in June came to an end mid-month as the S&P gave up its 4% month-to-date gain. The sell-off intensified following Fed Chairman Powell's remarks at the Jackson Hole conference, with the S&P, Dow, and Nasdaq all losing over 5% in the last four trading days of August. Since February the market has alternated between positive and negative monthly returns, with August continuing this trend.

Fixed Income

Bonds also disappointed during the month of August. Fixed income yields had been moving down from mid-June with the 10-year Treasury declining from nearly 3.5% to 2.6%. The path of interest rates is being driven by Fed policy and with a more hawkish tone coming from the Fed Chair, rates reversed course and ended the month higher. The result was a negative return for the bond market as prices and rates move in opposite directions.

Conclusion

In the early-1990s Biosphere 2 was set-up as an experiment to demonstrate the viability of closed ecological systems to support and maintain human life in outer space. The idea was to create a self-sustaining closed ecological system capable of supporting both plant and animal life. The original mission involved a crew of eight and lasted two years. The second mission ended prematurely following severe disputes among the management team and an alleged vandalism of the project by two members of the original crew who were said to have feared for the safety of the people inside. Management of Biosphere 2 was transferred to academic institutions and continued to run experiments within the closed ecological system.

One of the findings from the long running experiment was that the trees inside Biosphere 2 grew very quickly, much more so than they do in their natural environment. However, there was one problem, the trees within Biosphere 2 were falling over before reaching maturity. As scientists studied the issue, they discovered two things. First, because the trees were able to grow so quickly within the biosphere their root systems did not have a chance to develop and ultimately were unable to carry their own weight. Second, they discovered that the lack of wind in Biosphere 2 caused a deficiency of stress wood. Without wind the trees had much softer wood than the same species would normally make in the wild. As one article summarized it, "stress wood helps a tree position itself for optimal sun absorption and it also helps trees grow more solidly. Without stress wood, a tree can grow quickly, but it cannot support itself fully. It cannot withstand normal wear and tear and survive. In other words, the trees needed some stress in order to thrive in the long run."

A similar observation can be made when it comes to investing in the markets. It would be nice to have the certainty of a steady upward trend where the stock market rose in a predictable fashion week-to-week, month-to-month, year-to-year. In other words, a stress-free environment. The reality is that we don't invest in a controlled environment. The real world is full of uncertainty, which leads to stress, which leads to volatility. Stocks do go down from time-to-time. And sometimes they stay down for longer than we would like. However, the market has always gone on to reach new highs. The short-term stresses ultimately strengthen portfolios. The path to higher long-term returns requires us to endure the stress that comes with investing in the real world.

transaction. Additionally, the information presented here is not intended to be a recommendation to buy or sell any specific security. To learn more about our firm and investment approach, check out our Form ADV*.*

To view this article and others like it online, visit the P&A blog at https://pittand.com/blog/.