Ropes Wealth Recaps iPhones, ISMs, and Oil Prices in the News

You know you are the parent of a teenager when you read the headlines about China banning iPhone use for state-owned corporations, and your first thought is, *I wish I could wield that kind of power.* But seriously, it was big news for the market this week that Apple, one of the market's darlings, could experience such a blow. Shares dropped accordingly, losing close to -7% over two trading sessions, which brought the broader market down with it. The iPhone ban was not the only news out of China that caused markets some angst this week. The latest Caixin services PMI dropped to its lowest this year, falling from 54.1 to 51.8 in August, barely in expansion territory. Against expectations, retail sales have also been tepid, and youth unemployment rose to 21.3% in June, a record high. Chinese exports have dropped -14.5% over the past 12 months, the weakest pace since February 2020, and imports contracted -12.4%. A faltering Chinese economy will have an outsized impact on certain U.S. and European stock sectors with heavier exposure to business there, including tech, materials, and industrials.

Turning closer to home, the U.S. services sector unexpectedly gained steam in August, with new orders firming and businesses paying higher prices for inputs -- potential signs of still-elevated inflation pressures. The ISM non-manufacturing PMI rose to 54.5 last month, the highest reading since February and up from 52.7 in July. A reading above 50 indicates growth in the services industry, which accounts for more than two-thirds of the economy. While this report demonstrated the good news of U.S. economic resilience, the market instead focused on what it might mean for the Fed who next meets September 19-20 and may feel pressured to raise interest rates.

This week's initial jobless claims fell to 216,000, the lowest weekly reading since late January, which clashed with last week's payrolls data that suggested the job market has continued to loosen. Additional government data showed unit labor costs rose and productivity fell in Q2. It looks like instead of laying off people, companies are cutting hours; but that still is not helping alleviate the issue of higher and stickier labor costs.

Speaking of the Fed, this week saw the release of its Beige Book survey of conditions across the twelve central bank districts. The results were mixed. Overall, most Fed districts indicated economic growth was *"modest"* in July and August, according to the report. *"Consumer spending on tourism was stronger than expected,"* perhaps reflecting the last stage of pent-up demand for leisure travel from the pandemic era. *"But other retail spending continued to slow, especially on non-essential items,"* the report adds. *"Some districts highlighted reports suggesting consumers may have exhausted their savings and are relying more on borrowing to support spending."*

Assessing the labor markets, Fed officials say job growth was "subdued" across the nation. Still, though hiring slowed, "most districts indicated imbalances persisted in the labor market as the availability of skilled workers and the number of applicants remained constrained."

A final blow to sentiment to start September was caused by reports that Saudi Arabia and Russia will extend a voluntary oil production cut. WTI crude prices rose to close to $88 per barrel as a result. Following the announcement, U.S. National Security Advisor Jake Sullivan said that President Biden is *"doing everything within his toolkit to be able to get lower prices for consumers at the gas pump."* Higher fuel costs are the last thing Americans need right now.

With all that, investors may be reconsidering some of their year-to-date market enthusiasm as they focus on the combination of a slowing economy and still-high inflation. Reflecting on hawkish recent Fed speak, investors are scaling back hopes the Fed may be prepared to ease policy and lower interest rates early next year. We have long been wary of that presumption and reiterate our advice to stay balanced and flexible, but not afraid. Higher debt costs for consumers, businesses, and governments will mean slower growth in the near term. But as we look forward, and as better fiscal management is implemented to deal with those higher debt costs, there is all the potential in the world for higher growth in the future built on a much more quality base. We just have to get from here to there.

Thank you as always for your interest in our investment commentary. Please let your RWA team know if you have any questions or concerns. If you would like to speak personally with a member of our team at any time, please click **here**.

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