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It's Macro "Shark" Week

This week, the Federal Reserve is set to release a new statement on monetary policy. And, by the end of this month, Congress is supposed to either pass a new budget or possibly shut down non-essential government services.

As of last Friday's close, the futures market was putting the odds of a rate hike at this week's meeting at less than 1%. The Fed will release a new batch of economic forecasts as well as "dot plots" that show where policymakers see short-term interest rates heading. These "dots" could be the surprise "shark attack" during the meeting. The futures market's odds of a rate hike by the December meeting are roughly 45%. The Investment Office is concerned oil prices are lifting inflation once again, and rising auto prices and health insurance rates may keep inflation elevated later this year. Meanwhile, real GDP growth looks steady in Q3. Mixing inflation above target with resilient economic growth puts at risk a prolonged "hold" by the Fed and may tempt it to "hike" at least one more time before yearend.

Last week, U.S. equities generated a small loss while Non-U.S. Developed and Emerging Market equities outperformed U.S. stocks generating positive gains between 1-2%. Last week U.S. stock market leadership continued to shift from Growth toward higher-quality Value stocks. While this year has largely been a story of tech resilience in the face of elevated yields, the 58bps rise in the 10-year Treasury yield since mid-July has driven outperformance of Value over Growth. Semiconductor stocks fell for a second straight week despite Arm, a chip design firm, trading higher post-IPO.

Last week, the ECB raised interest rates for the 10th consecutive time and hinted that it could be nearing the end of its monetary tightening campaign. ECB President Christine Lagarde said a "solid majority" of policymakers had backed the quarter-point hike that took the key deposit rate to 4.0%, a record high. The ECB said that the move meant "interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target." In local currency terms, the pan-European STOXX Europe 600 Index ended 1.60% higher after the European Central Bank (ECB) raised interest rates but signaled that borrowing costs may have reached a peak.

What We Are Monitoring

Government Shutdown. The media and investors are starting to focus on the possibility of another government shutdown. We don't think this is time well spent.

Oil Prices. However, the 30% increase in a barrel of Brent crude oil since June 27 is a concern because it has resulted in an 8.2% increase in the retail price of gasoline since late June to \$3.94 during the September 11 week. If the price of oil breaches \$100 per barrel and the price of gasoline rises solidly above \$4.00 a gallon and both remain above those levels for a while, they could trigger higher inflationary expectations.

IPO Window. As we approach the Fall season, the IPO window is beginning to open after last week's Arm semiconductor IPO and Instacart, an online grocery delivery company, pricing at the high end of their filing range, albeit a meaningful discount to the last private investment round. Klaviyo, an online marketing firm, is scheduled this week to price its IPO with an anticipated valuation close to its last private investment round.

Buyers of U.S. Treasuries. Foreign holdings of U.S. Treasuries rose in July, data from the Treasury Department showed, rising for a second straight month despite an uncertain interest rate outlook. However, China's Treasury holdings dropped to their lowest level since May 2009. The decline may be partially explained by pressure for China to defend its weakening currency, the yuan, and the selling of U.S. debt may have been used for intervention purposes to support its currency. Japan is still the largest non-U.S. holder of Treasuries. However, the Investment Office is monitoring Japan as it signals loosening controls on its own debt to target low yields, making the purchase of U.S. Treasuries less attractive.

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