Fed Chair Jerome Powell testified to Congress yesterday and updated them with the Fed's latest views on the economy, inflation, and monetary policy. The Fed has kept rates at current levels in part because the labor market was tight. Chair Powell's concern was that higher wages due to a shortage of workers would feed inflation. In his testimony, Chair Powell claimed that is no longer a concern. To wit:

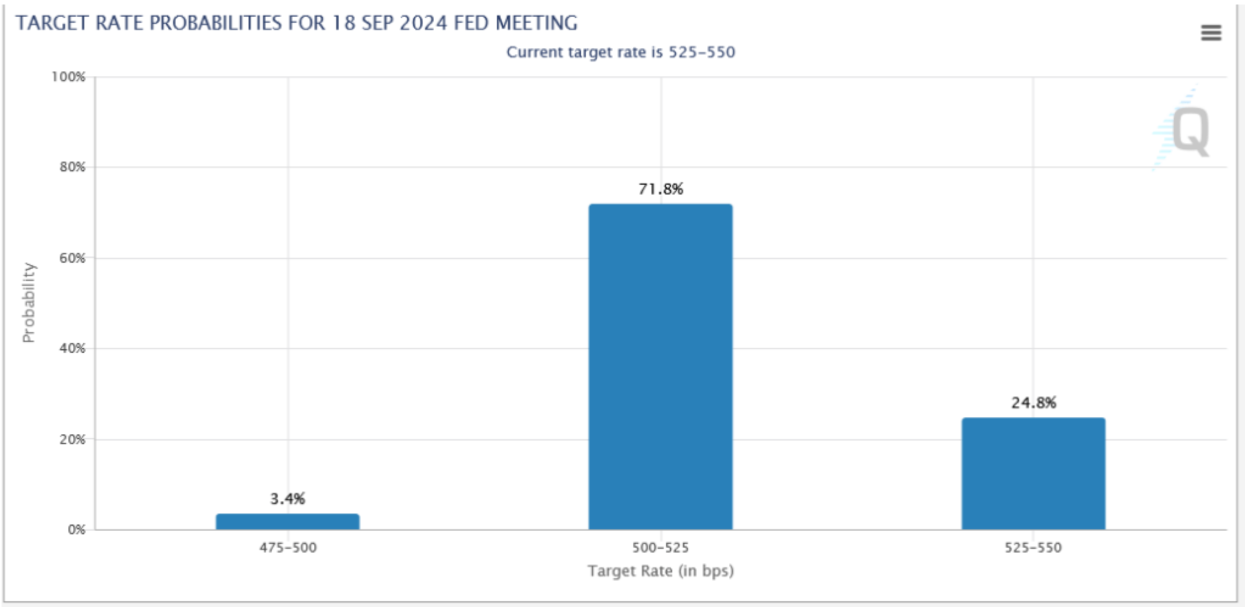
> *The most recent labor market data sent a pretty clear signal that the labor market has cooled considerably and appears to be fully back in balance.*

Regarding monetary policy, he said, "*It's not likely the next move will be a rate hike*." Further, he continued to stress the risks the Fed faces. Per his speech:

> *In light of the progress made both in lowering inflation and in cooling the labor market over the past two years, elevated inflation is not the only risk we face. Reducing policy restraint too late or too little could unduly weaken economic activity and employment.*

On the inflation front, Chair Powell appears to be getting more optimistic that the recent inflation readings are heading lower again. *"More good data would strengthen our confidence that inflation is moving sustainably toward 2%."*

He did not break new ground, but his general tone indicates the Fed wants to cut rates. However, they want more data confirming that the inflationary tailwinds are fading quickly. As shown below, the market favors a rate cut in September. The odds of a cut in July remain low at 5%.



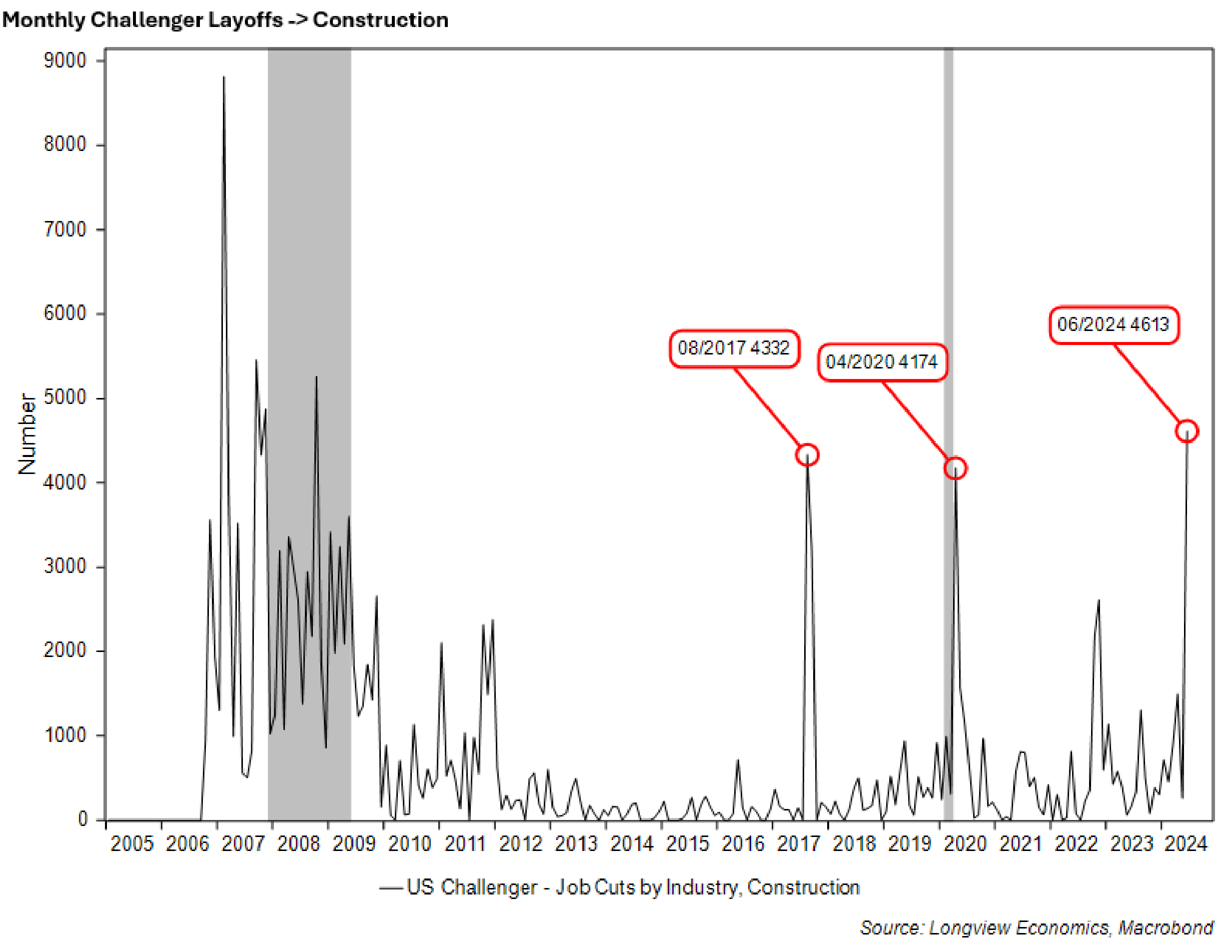
Construction Job Layoffs Rising

The graph below, courtesy of Longview Economics, shows an unusual jump in the number of layoffs in the construction industry. Similarly, the recent data on building permits and housing starts have been slowing rapidly. Accordingly, layoffs in the industry should not be shocking.

There are approximately 8 million construction workers in the labor force. The sector has been one of the leading growth sectors over the last few years. Therefore, we should watch whether the layoffs continue in the Challenger data and if they also appear in the BLS data.

As Longview states:

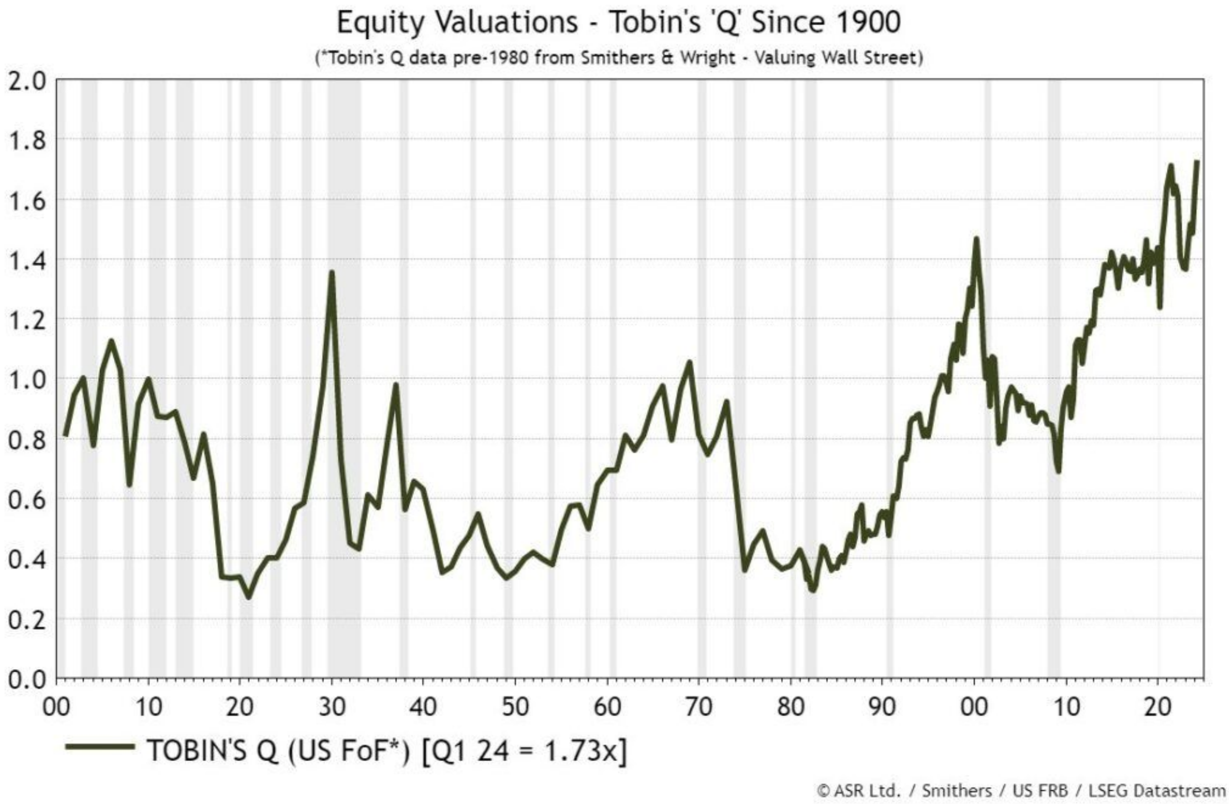
> *Unusual to get such a large monthly ?construction? layoffs data point Way too soon to extrapolate. BUT a second similar month at this level would be troubling (especially when many other labour market indicators are so soft!)*



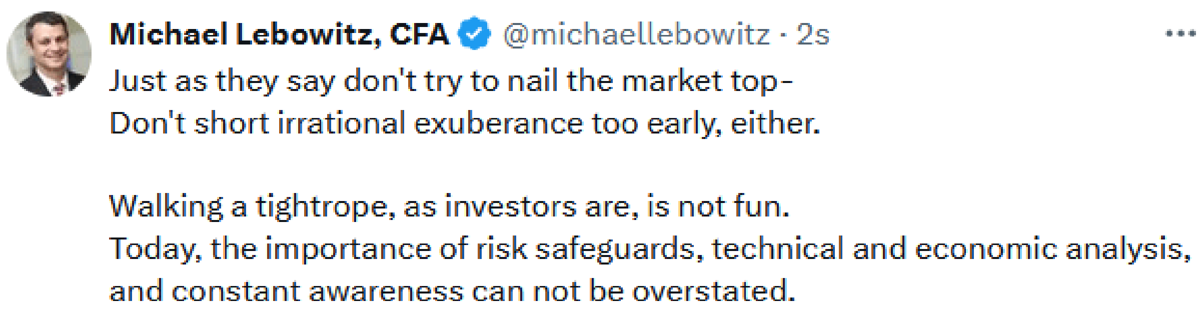
Tobin's Q Ratio At A Record High

The graph below, courtesy of ASR Ltd., shows that the Tobin Q ratio is now at its highest level in nearly 125 years. Tobin's Q ratio uses the market value and replacement value of a company's assets to determine if they are over or undervalued. When the ratio is greater than one, it means the market values the company more than the value of its assets. Therefore, today's record readings imply expectations for high growth and, ultimately, profits.

Like Tobin's, many valuation metrics are at or near historic highs. However, technically, the market remains very strong. Accordingly, investors need to pay close attention to technical warnings that could result in some normalization of valuations.



Tweet of the Day



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