WisdomTree MINDS ON THE MARKETS


Jeff Weniger, CFA: Head of Equity Strategy


Kevin Flanagan: Head of Fixed Income Strategy

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It's that time of the cycle for the adage about high commodity prices being the cure for high commodity prices.

Though the market has had a bit of a "risk-on" flavor since June, the onset of recessionary conditions has created a laundry list of commodities and other assets that have fallen precipitously from their early 2022 highs. Among them: iron ore, steel, copper and silver. WTI crude oil got into the $120s twice this year but is now cratering, suddenly finding itself under $90.

Nevertheless, its cousin—natural gas—remains well bid, especially in Europe. This lone commodity is the driving force behind a punishing economic retrenchment on the Continent. So acute is the energy crisis across the Atlantic that Spain placed directives for thermostats to be set to 81F. This winter will see the opposite, with people having to don several sweaters in their own homes.

Meantime, the U.S. is witnessing demand destruction in gasoline, courtesy of the $5–$6 pump prices that were common in the driving season between Memorial Day and Independence Day. But demand destruction is in tow. The EIA reported last week that gasoline stocks surprisingly rose to levels that are almost within the five-year average for this time of year, indicating that maybe a bunch of office workers decided to open their laptops in the house instead of driving to work. Fortunately, the American Automobile Association (AAA) reports that 21 states now have unleaded gasoline prices under $4.

Meantime, you may recall that one of 2021's most notable inflation stories was the surge in lumber, which tripled to $1,686 per thousand board feet in May 2021. The situation was so peculiar that it generated an internet meme: a couple having a candlelit dinner in "an expensive place," a lumber yard. Lumber has tumbled to $479, giving back all of its bull surge. The meme no longer makes the rounds.

Another new development: a cure for high prices in housing. The consensus is the mountain west is the region that is taking high mortgage rates particularly hard, with Boise, Salt Lake City and Phoenix among the cities commonly in the conversation. The west coast is not off the hook either; the *Seattle Times* last week noted outright price declines across multiple residential property types in that city and its suburbs in recent months. For now, the Midwest and east coast have not garnered the lion's share of the headlines because the "California arbitrage cities" like Las Vegas have been hit harder.

On this subject, we wonder if the Bank of Canada, which raised its policy rate by 100 basis points at its last meeting, will be able to keep pace with the Federal Reserve now that the Toronto Real Estate Board has dropped a bombshell. The average selling price of houses in the Greater Toronto Area was C$1.07 million in July, which was roughly flat over the 12-month horizon. But here's the thing: it was C$1.30 million a few months ago. Sales volumes have halved since last summer. It bodes poorly for nearby upstate New York, which has heavy business relationships with Ontario. The Empire Manufacturing Survey may deteriorate further, which is saying something when you consider its expectations component, which is below 2008–2009.

If the Bank of Canada cannot keep up with the Federal Reserve, the U.S. dollar could find itself tacking on another nickel or dime to the C$1.29 exchange rate. That is critical when you consider that Canada accepts about 20% of all U.S. exports, ranking the country number one in the world on this metric. That is a big deal because this earnings season saw more S&P 500 company references to U.S. dollar strength as a cause of profit disappointments than any earnings season that we can recall. Though we got our cure for high lumber and gasoline prices, the strong dollar may have its own "cure" for high S&P 500 earnings.

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