Advisor Group

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MARKET VIEW WEEKLY

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ECONOMIC REVIEW[1]

- The Personal Consumption Expenditures (PCE) Index ticked up last month, exceeding both consensus expectations and March readings across headline and core measures.
  - Core PCE, the Federal Reserve's (Fed) preferred inflation gauge which excludes volatile food and energy prices, is up 4.7% on a 12-month comparison.
- Notably, this measure is down less than 1.0% from its peak of 5.4% last February, illustrating the stubbornness of this current bout of inflation as well as a shift in consumer preferences from spending on goods to services.
  - The Fed now closely watches an additional subset of inflation termed "Super Core" – services only, excluding food, energy, and housing – this measure rose 0.4% last month and is up 4.5% versus a year ago.

Personal Consumption Expenditures (PCE) – April 2023			
PCE Index month-over-month	0.4%	Core PCE Index month-over-month	0.4%
PCE Index year-over-year	4.4%	Core PCE Index year-over-year	4.7%

- Positively, real GDP growth for the first quarter was revised higher to a 1.3% annual rate from the initial estimate of 1.1%.
  - The cumulative effect of a series of small upward revisions to inventories, business investment, government purchases, and consumer spending offset lower net exports and home building.
- However, as implied by two consecutive quarters of falling earnings, economy-wide corporate profits declined in sympathy, and are down 5.1% compared to Q4 2022 and 2.8% versus last year.

How do PCE and GDP impact you?

- Despite a generally souring economic outlook given tighter credit conditions, still-elevated inflation, and sharply rising net-short positions in derivatives markets on broad market indices, real GDP continues to surprise to the upside.
- Strong consumer spending has thus far been the linchpin holding this economy together, but sticky inflation – particularly in services where consumers have shifted spending preferences – may be revealing some early consumer weakness.
  - Auto loan delinquencies are rising, reflecting tighter credit conditions, and spending at restaurants is starting to slow, which may indicate a weaker outlook for spending on services broadly.

A LOOK FORWARD[1]

- In a short week following Memorial Day, investors will be closely watching employment data over the next few days.
  - JOLTS as well as the ADP employment report will be important to monitor on Wednesday and Thursday, respectively.
- But the U.S. employment report, highlighting the unemployment rate as well as hourly wages, will be the final read on the labor market ahead of the much-anticipated, June Fed meeting.

How does Labor Market data impact you?

- Although the central bank has pledged that it will remain data dependent and will certainly factor in the cumulative effects that tighter credit conditions resulting from regional banking turmoil may have on economic growth, inflation is still far from the Fed's 2.0% target, and unemployment remains historically low.
  - Chairman Powell has acknowledged these increasing headwinds but has made it clear that employment and growth are still secondary goals to returning inflation back to target – another hike could be coming in June.

MARKET UPDATE[2]

Market Index Returns as of 05/26/23	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	0.35%	2.60%	10.29%	2.88%	13.26%	11.02%
NASDAQ Composite TR USD	2.52%	6.31%	24.43%	7.92%	12.17%	12.79%
DJ Industrial Average TR USD	-0.97%	-0.22%	0.70%	1.78%	11.24%	8.30%
Russell Mid Cap TR USD	-1.03%	-2.41%	1.55%	-4.75%	10.52%	6.97%
Russell 2000 TR USD	-0.02%	-1.44%	1.26%	-4.64%	8.63%	3.09%
MSCI EAFE NR USD	-2.29%	0.31%	8.80%	5.11%	9.61%	3.32%
MSCI EM NR USD	-0.42%	-1.38%	2.52%	-4.05%	4.09%	-0.65%
Bloomberg US Agg Bond TR USD	-0.67%	-1.71%	1.20%	-3.82%	-3.98%	0.67%
Bloomberg US Corporate High Yield TR USD	-0.36%	-0.22%	3.34%	-0.19%	2.96%	3.03%
Bloomberg Global Aggregate TR USD	-1.09%	-2.46%	0.48%	-5.96%	-4.79%	-1.28%

OBSERVATIONS

- Equities maintained their somewhat volatile slog sideways, while a narrow selection of growth stocks continued to outperform.
  - The NASDAQ led the way, improving 2.52%, but the S&P 500 barely eked out a positive week, returning just 0.35%, while the DJIA fell 0.97%.
- International stocks were negative across the board with developed markets down 2.29% and emerging markets quite a bit stronger, falling just 0.42%.
- Bonds were negative domestically, globally, and across the credit spectrum as fixed income investors weighed the potential for yet another rate increase.
  - The Bloomberg US Aggregate Bond Index declined 0.67%; the Bloomberg Global Aggregate Bond Index fell 1.09%; the US Corporate High Yield Index fell 0.36%.

BY THE NUMBERS

- **How a Debt-Ceiling Deal that Neither Side Wanted Cracked the Logjam in Washington:**[3] WASHINGTON—The path to a tentative agreement to raise the debt limit started in January with the election of Kevin McCarthy as House speaker on the 15th ballot, after he made conservatives a host of promises to cut spending and gave them the ability to oust him if he wavered. It ended with President Biden caving from his pledge not to negotiate and the two sides crafting an accord that neither the right nor left wanted, which places new limits on spending for two years and raises the nation's borrowing limit for the same period. "The agreement represents a compromise, which means not everyone gets what they want," Biden said. "That's the responsibility of governing." McCarthy called the deal an "agreement in principle" and warned: "We still have a lot of work to do." The nascent accord, reached Saturday evening by the president and the speaker, must still be ratified by both chambers of Congress, a tortuous process that will rely on centrists in both parties. McCarthy's margin for error is small and lawmakers in his conference might still rebel, requiring negotiators to go back to the table, costing him his job or sending the country into a default that could rattle the global financial system and stain America's creditworthy reputation.

- **2023 Stanley Cup Final Primer: Golden Knights vs. Panthers:**[4] The heat is on. The Vegas Golden Knights reached the Stanley Cup Final by defeating the Dallas Stars 6-0 in Game 6 of the Western Conference Final at American Airlines Center on Monday. The Florida Panthers punched their ticket last Wednesday with a 4-3 win against the Carolina Hurricanes in Game 4 of the Eastern Conference Final at FLA Live Arena in Sunrise, Florida. It's the second Stanley Cup Final appearance for each team, but one will become a champion for the first time. Florida was swept by the Colorado Avalanche in the 1996 Cup Final, and Vegas lost in five games to the Washington Capitals in 2018.

Economic Definitions

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

GDP: Gross domestic product (GDP) measures the final market value of all goods and services produced within a country. It is the most frequently used indicator of economic activity. The GDP by expenditure approach measures total final expenditures (at purchasers' prices), including exports less imports. This concept is adjusted for inflation.

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Job Openings – JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

The ADP Report: The ADP National Employment Report is an independent estimate of the change in U.S. nonfarm, private employment derived from actual, anonymous payroll data of client companies served by ADP.

US Employment Report - Presents statistics from two monthly employment surveys. The household survey measures labor force status, including unemployment, by demographic characteristics. The establishment survey measures nonfarm employment, hours, and earnings by industry.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.
MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

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[1] Data Obtained from Bloomberg as of 05/26/2023.
[2] Data Obtained from Morningstar as of 05/26/2023.
[3] How a Debt-Ceiling Deal That Neither Side Wanted Cracked the Logjam in Washington - WSJ
[4] 2023 Stanley Cup Final primer: Golden Knights vs. Panthers (nhl.com)