JULY 28, 2023

MARKET VIEW WEEKLY

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ECONOMIC REVIEW[1]

- The June headline Personal Consumption Expenditures (PCE) price index was up 0.2% month-over-month (MoM) and dropped to 3.0% year-over-year (YoY).
  - Headline PCE is at its lowest level since March 2021.
  - June Core PCE was also up 0.2% monthly and fell to 4.1% year-over-year, still well above the Fed's 2% target rate.
- The Conference Board's Consumer Confidence Index ® jumped for a second straight month to 117.0 in July from June's upwardly revised reading of 110.1.
  - This month's reading was better than expected, exceeding the 111.8 forecast. The latest figure is the index's highest reading since July 2021.
- As expected, the Federal Reserve (Fed) raised the target range for the federal funds rate 0.25%, to a range of 5.25% to 5.50%. It was a unanimous decision.
  - The upper bound of the range now stands at the highest level since 2001.
- Real gross domestic product (GDP) increased at an annual rate of 2.4% in Q2 2023, according to the advance estimate. The latest estimate is stronger than the expected 1.8% growth and is at a faster pace than the Q1 2023 GDP third estimate of 2.0%

How do inflation data, consumer confidence, and the Fed impact you?

- Key US inflation measures continued to cool down and consumer spending continued to show strength in June, adding to momentum in the economy ahead of the third quarter.
- Stronger than-expected GDP growth shows that the economy showed resiliency in the first half of the year amid higher interest rates and persistent inflation.
- While recessionary fears abate, the big question facing the markets is: Does this most recent Fed rate hike represent the peak in the Fed funds rate for this cycle, or are there more rate hikes ahead? That question remains unanswered, but after yesterday's resumption of interest rate hikes, it's encouraging to see the aggressive hike cycle working as inflation continues to decline. Consumers are getting a reprieve from the rising costs of core goods, and the U.S. economy is off to a stronger start to the first half of the year.

A LOOK FORWARD[1]

- Institution of Supply Chain Management (ISM) manufacturing will be released on Tuesday, economists are expecting a slight uptick to 46.9 from 46.0 a month prior.
- The employment report will be released on Friday. Economists are expecting 200k jobs to be added to the economy and the unemployment rate to remain steady at 3.6%

How does manufacturing and employment data impact you?

- The heart of the resilience in the economy is the health of the U.S. labor market. If labor gains can stay robust for longer, it would sustain wages and personal incomes, and thus consumption. This would be a potential catalyst for higher stock prices.
- The labor market and the consumer account for 70% of economic activity and have been keeping recessionary fears at bay. If we now start to see the depressed manufacturing sector start to recover, economic growth could continue to be strong through the end of the year.

MARKET UPDATE[2]

Market Index Returns as of 7/28/2023	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	1.03	3.06	20.47	12.85	13.83	12.15
NASDAQ	2.03	3.86	37.43	16.58	11.61	14.11
Dow Jones Industrial Average	0.66	3.15	8.24	10.31	12.40	9.21
Russell Mid-Cap	0.15	3.45	12.77	8.20	11.51	8.67
Russell 2000 (Small Cap)	1.09	4.97	13.45	6.74	11.12	4.96
MSCI EAFE (International)	0.92	3.09	15.12	16.63	8.18	4.46
MSCI Emerging Markets	2.85	5.84	11.02	7.96	1.11	1.55
Bloomberg US Agg Bond	-0.40	-0.20	1.89	-3.49	-4.43	0.73
Bloomberg High Yield Corp	0.08	1.17	6.61	4.19	2.11	3.41
Bloomberg Global Agg	-0.28	0.78	2.22	-2.62	-5.63	-0.90

OBSERVATIONS

- After a strong first half of the year, stocks continued to rally through the first month of the 3rd quarter.
  - For the last full week of July, the S&P 500 Index returned +1.03%, the NASDAQ returned +2.03% and the DJIA Index returned +0.66%.
  - The S&P 500 Index and the DJIA have posted their third straight week of positive performance.
- Developed International markets underperformed domestic markets with the MSCI EAFE Index returning +0.92%. However, Emerging Markets outperformed all major domestic equity indexes last week with the MSCI EM Index returning +2.85%.
- Bonds had a relatively mild week, with the Bloomberg Agg Bond Index down -0.40% as the Federal Reserve hiked rates yet again.

BY THE NUMBERS

- **Car Supply:** The supply chain problems that made it difficult to get a car in America have begun to subside, as U.S. car dealers have 53 days' worth of inventory on their lots as of June, up 39 percent year-over-year. This has the positive effect of more and more cars actually selling for the price they're listed at rather than a hiked-up price because of low supply: AutoNation reported that it's selling 40 percent of its cars at MSRP, down from 45 percent the previous quarter. The average monthly payment for a new car is still eye-wateringly high, averaging $736, up from $686 last June and well above the $535 per month it was going for the same month five years ago.[3]

- **Fast Food Sales May get a Boost due to Electric Cars.** The federal government wants to increase the number of public charging stations for electric vehicles by a lot, from 130,000 today to eventually 500,000, buoyed by $5 billion in funding. An ideal partner for installing charging infrastructure has available parking, lots of locations, and convenient placement within communities, which is one reason that fast food restaurateurs are increasingly interested in adding chargers to their lots. Subway, the sandwich chain with 20,000 locations, partnered with GenZ EV Solutions to add chargers that can provide a 120-mile charge for $20 in under 20 minutes. A Taco Bell and Arby's franchisee with 300 locations is doing the same in California, and Starbucks is experimenting with DC fast chargers at some locations.[4]

Economic Definitions

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

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.

Conference Board Consumer Confidence Index: The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitude, buying intentions, vacation plans and consumer expectation for inflation, stock prices and interest rates. Data is data available by age, income, region and top 8 states.

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.

ISM Manufacturing Index: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

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 7/28/2023.
[2] Data obtained from Morningstar as of 7/28/2023.
[3] https://www.wsj.com/articles/why-car-dealers-are-losing-their-shine-135fee93?mod=hp_minor_pos19&utm_source=substack&utm_medium=email
[4] https://www.qsrmagazine.com/reports/can-fast-food-restaurants-surge-americas-ev-charging-network?utm_source=substack&utm_medium=email