MARKET VIEW WEEKLY

September 29th, 2023

ECONOMIC REVIEW[1]

- Personal Consumption Expenditures (PCE) rose 3.5% year-over-year (YoY) marking the second consecutive month of gains for the headline figure.
    - PCE increased 0.4% through the month of August, which fell in line with market forecasts but doubled the previous month's rise.
- The Core PCE Price Index, the Federal Reserve's preferred inflation gauge which removes the volatile effects of food and energy prices, rose 3.9% YoY – notching the measure's first reading below 4% since June of 2021.
    - Core PCE increased just 0.1% in August, below the consensus expectation of 0.2%, which provided evidence that inflation may be softening towards the Fed's 2% target.[2]
    - However, energy prices ramped back up last month in response to extended OPEC production cuts, which forced headline measures higher and could reignite inflation concerns among consumers who care little about economists parsing the source of rising prices.
- The Conference Board's survey of consumer confidence fell to a four-month low of 103.0 in September, below median forecasts and well below the previous month's reading of 108.7.
    - The University of Michigan gauge of Consumer Sentiment dipped in sympathy later in the week, effectively confirming American's uncertainty about the direction of the economy and possible budding recession fears.
- Second quarter Gross Domestic Product (GDP) revisions scaled back the initial reading of economic activity by 10 basis points to 2.1% from 2.2%.

How do PCE, consumer confidence, and GDP impact you?

- While Core PCE prices took an important step lower last month, Services – the sector of the economy retaining the most pent-up demand – remains the primary driver of inflation and is still increasing at a rate of 4.9% YoY.
    - Additionally, the rapid rise in energy prices seen in August – growing 6.1% month-over month (MoM) – only continued their climb through September, so investors should expect higher headline readings later this month.
- The dip in consumer confidence and sentiment, respectively, is somewhat concerning, although September is notoriously a dour month for markets and the slide in equity markets that rounded out Q3 may be weighing on survey data.
    - American consumers have shown remarkable resilience through 2023, so this may prove to be a minor blip ahead of yet another strong holiday season, but higher interest rates are taking their toll.

A LOOK FORWARD[1]

- This week is a big one for labor markets, with ADP, initial jobless claims, and the U.S. employment report all scheduled to be released in the next few days.
- S&P final U.S. Services PMI, ISM Services, and the U.S. Trade Deficit round out the slate of data reporting this week.

How do labor markets, services data, and the trade deficit impact you?

- The employment reports this week will be of critical importance to the Fed in their assessment of how significantly tighter monetary policy has thus far affected the economy and whether even higher interest rates may be necessary.
- Services account for roughly 70% of U.S. economic activity and readings on this sector will be crucial in assessing consumer confidence and spending ahead of the holiday season.

MARKET UPDATE[3]

Market Index Returns as of 9/29/2023	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500	-0.71%	-3.27%	13.07%	21.62%	10.16%	9.92%
NASDAQ	0.07%	-3.94%	27.11%	26.11%	6.61%	11.41%
Dow Jones Industrial Average	-1.34%	-2.10%	2.73%	19.18%	8.62%	7.14%
Russell Mid-Cap	-0.07%	-4.68%	3.91%	13.45%	8.10%	6.38%
Russell 2000 (Small Cap)	0.55%	-5.13%	2.54%	8.93%	7.17%	2.40%
MSCI EAFE (International)	-1.43%	-4.11%	7.08%	25.65%	5.76%	3.24%
MSCI Emerging Markets	-1.14%	-2.93%	1.82%	11.70%	-1.73%	0.55%
Bloomberg US Agg Bond	-0.96%	-3.23%	-1.21%	0.64%	-5.21%	0.10%
Bloomberg High Yield Corp	-0.42%	0.46%	5.86%	10.28%	1.76%	2.96%
Bloomberg Global Agg	-0.93%	-3.59%	-2.21%	2.24%	-6.94%	-1.62%

OBSERVATIONS

- In a flip of the previous week's script, the blue-chip-oriented Dow (-1.34%) underperformed both the S&P 500 (-0.71%) and the NASDAQ (0.07%), which barely eked out a positive week of returns.
    - Mid-cap stocks fell just seven basis points, while Small Cap equities improved more than half a percent.
- International developed and Emerging Market equities broadly underperformed domestic stocks, returning (-1.43%) and (-1.14%), respectively.
- Bonds were negative domestically (-0.96%), internationally (-0.93%), and across the credit spectrum (-0.42%).
    - A torrid rise in Treasury yields has pressured fixed income investments across the curve.

BY THE NUMBERS

- **Dollar's Resurgence Is a Headache for the Rest of the World:** The dollar bounced back with a vengeance in the third quarter, threatening global central bankers' tricky task of bringing down inflation while protecting fragile economic growth. The greenback has risen nearly 6% since mid-July and last week closed out its best quarter since last fall, when it was in the midst of a once-in-a-generation run-up. Some emerging-market currencies have been hit especially hard, with the dollar rising 11% against the Chilean peso and almost 8% against the Hungarian forint. The dollar's strength has been driven by surging Treasury yields, which last week jumped above 4.6% to a new 16-year-high. Investors have grown more convinced of the U.S. economy's resilience—and that the Federal Reserve is likely to keep borrowing costs higher for longer than it would do in a typical business cycle. Any big currency move produces both winners and losers. In the U.S., a strong dollar is politically popular and largely good for consumers because it holds down inflation by keeping import prices in check and makes trips abroad cheaper. For the rest of the world, however, the return of the strong dollar is a largely unwelcome development. In many countries, interest rates are at their highest in years or decades, already increasing the risk of financial stress. The combination of those higher rates, a stronger U.S. currency and elevated oil prices spells lower growth across the world and more financial vulnerability.[4]

- **Evergrande's New Woes Signal Long Slog for China's Economy:** Just as China's economy was showing signs of life, the troubles of the world's most-indebted property developer have come roaring back, showing that a drawn-out downturn in the country's enormous property market is far from over. On Thursday, China Evergrande Group said that its chairman, Hui Ka Yan, was under investigation by authorities for potential criminal wrongdoing and that it owes tens of billions of dollars in unpaid bills to lenders, contractors and suppliers. Regulators have also blocked parts of the company's turnaround plan, sending an ominous signal to other developers flirting with insolvency. An ailing property market looms largest of a host of problems facing China's economy, and Evergrande's latest woes suggest the pain is only worsening. The country is suffering from record high youth unemployment, slumping exports and strained government finances. Frosty relations with the U.S.-led West are squeezing access to technologies such as semiconductors.[5]

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 Leading Economic Index: Leading indicators include economic variables that tend to move before changes in the overall economy. These indicators give a sense of the future state of an economy.

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collect data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

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.

Initial Jobless Claims: Initial unemployment claims track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.

ADP Employment Change: The ADP National Employment Report measures levels of non-farm private employment. The Report is based on the actual payroll data from about 25 million employees and is produced by the ADP Research Institute in collaboration with the Stanford Digital Economy Lab.

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.

US Employment Report: Also known as the employment situation summary, presents statistics from two monthly surveys. The household survey measures labor force status, including unemployment, by demographic characteristics. The establishment survey measures nonfarm employment, hours, and earnings by industry.

ISM Services 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. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

S&P Services PMI Index: The S&P Global US Services PMI is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The index tracks variables such as sales, employment, inventories and prices; and varies between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The headline figure is the Services Business Activity Index, which is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index.

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 9/29/2023.
[2] Underlying Prices Cooled in August, Giving the Fed More Evidence of Softer Inflation - WSJ
[3] Data obtained from Morningstar as of 9/29/2023.
[4] Dollar's Resurgence Is a Headache for the Rest of the World - WSJ
[5] Evergrande's New Woes Signal Long Slog for China's Economy - WSJ

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