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MARKET VIEW WEEKLY

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ECONOMIC REVIEW[1]

- US retail sales increased 0.4% month-over-month (MoM and only 0.5% over the last year, the lowest growth rate since May 2020 and well below the historical year-over-year (YoY) average of 4.8%.
    - After adjusting for inflation, though, the story is far worse. Real retail sales fell 4.2% over the last year, the 6th consecutive YoY decline.
- The latest reading for housing starts came in at 1.401M, just above the forecast of 1.400M, and is a 2.2% increase from March's revised figure of 1.371M. However, housing starts are down 22.3% compared to this time last year.
- The latest reading of building permits came in at 1.416M, below forecast of 1.437M, and is a 1.5% decrease from March's revised figure of 1.437M. Building permits are down 21.1% compared to one year ago.
- The Leading Economic Index (LEI) declines 0.6% on a MoM basis and -8.0% on a YoY basis.

How do Retail sales, Housing data, and LEI impact you?

- In 2022, retail sales held up remarkably well despite high inflation, with Americans saving less (Personal Savings Rate hit its lowest level since 2005) and borrowing more (credit card debt spiked).
    - If either of these trends reversed, we would likely see a spending downturn. We're starting to see that now with the savings rate moving up to 5.1% from a low of 2.7% last year.
- In the housing market, supply remains constrained as many would-be sellers can't afford to move. In addition, two-thirds of mortgages have an interest rate below 4% (vs. 6.4% rate today), and most buyers from the last few years could not afford the house they are living in if they had to buy them at current rates/prices. Creating a standstill in the housing market.
- For LEI, this is the 13th consecutive monthly decline, the longest streak since 2009, and the lowest reading since September 2020. We are currently 8.7% off the 2021 peak in LEI. On average, there are usually 10.6 months between a peak and a recession. We are currently 16 months away from the 2021 peak.

A LOOK FORWARD[1]

- A quiet start to the week ahead regarding economic data, wrapping up with some important data points.
- On Thursday, we will receive the second reading of Q1 2023 Gross Domestic Product (GDP); the reading is expected to remain unchanged at 1.1%.
- We will also receive the personal consumption expenditures (PCE) reading on Friday; PCE is expected to rise slightly to 0.3% on a MoM basis but remain unchanged at 4.6% on a YoY basis.

How do GPD and PCE impact you?

- GDP should continue to show that the economy grew in Q1 2023. Although this was slower than the 2.6% growth rate seen in Q4, positive growth is a step in the right direction after two consecutive negative quarters of GDP growth seen in 2022 (which tends to be a leading indicator of a recession.)
- As expected, the Fed hiked rates for the 10th time earlier this month, pushing the Fed Funds Rate up to 5.00-5.25%. This is now the highest rate we've seen since September 2007. It took 10 rate hikes and 500 bps in cumulative increases, but the Effective Fed Funds Rate (5.08%) is finally above the rate of inflation (as measured by PCE) in the US (4.6%).
    - This could signal that the Fed is done hiking rates and will pause during the June meeting.

MARKET UPDATE[2]

Market Index Returns as of 05/19/23	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	1.71%	2.24%	9.91%	9.32%	13.96%	11.02%
NASDAQ Composite TR USD	3.08%	3.70%	21.37%	12.48%	11.39%	12.47%
DJ Industrial Average TR USD	0.50%	0.76%	1.69%	9.24%	13.09%	8.55%
Russell Mid Cap TR USD	1.06%	-1.39%	2.61%	2.48%	12.46%	7.22%
Russell 2000 TR USD	1.93%	-1.42%	1.27%	1.57%	11.00%	3.10%
MSCI EAFE NR USD	0.36%	2.66%	11.35%	11.32%	11.19%	3.48%
MSCI EM NR USD	0.51%	-0.97%	2.94%	-2.77%	4.11%	-0.57%
Bloomberg US Agg Bond TR USD	-1.37%	-1.05%	1.88%	-2.42%	-3.73%	0.95%
Bloomberg US Corporate High Yield TR USD	-0.42%	0.14%	3.71%	3.52%	3.73%	3.10%
Bloomberg Global Aggregate TR USD	-1.51%	-1.38%	1.58%	-4.09%	-4.44%	-0.98%

OBSERVATIONS

- Equities bounced back last week as investors gained more confidence that the debt ceiling issue would be resolved/
  - The major indexes were all positive with the S&P 500 Index +1.71%, the NASDAQ +3.08% and the DJIA +0.50%
  - International stocks also squeaked out some gains with the EAFE +0.36% and EM +0.51%.
  - In terms of market cap, both mid and small-cap stocks were also positive on the week, with the Russell Mid Cap Index returning +1.06% and the Russell 2000 (small cap) Index returning +1.93%
- Bonds bucked the positive trend we saw in equities and were negative domestically and globally as yields continued to rise across the yield curve.
  - The Bloomberg US Aggregate Bond Index declined -1.37%, while the US Corporate High Yield Index fell -0.42%.
  - The Bloomberg Global Aggregate Bond Index fell -1.51%.

BY THE NUMBERS

- **Recession Indicator?[3]:** According to Northwestern Mutual's 2023 Planning and Progress Study, about 67% of adults in the US anticipate a full-blown recession later this year. With that in mind, about 50% of folks surveyed are building up savings, while 41% are putting off "large expenses" until the economy shows signs of improving.

- **Debt Limit Debate**:[4] Debt limit negotiations are underway and financial regulators, politicians, and federal employees are having a stressful month. But what's with this budget ceiling metric, and why is it taken so seriously? After all, Congress has never failed to raise the debt limit when called to—in fact, it's acted 78 different times to raise, redefine, or temporarily extend the debt limit since 1960.

- **Why are People so Pessimistic on Housing**:[5] High prices plus high interest rates which has led to a collapse in affordability. The mortgage payment needed to buy the median priced home for sale in the US has moved up to $2,573, a new all-time high.

- **Tax Revenues:**[5] US Federal Tax receipts fell 6% over the last year, the largest YoY decline since June 2020 and before that May 2010. At least part of the drop was attributed to lower capital gains taxes paid in April as we went from a booming year for asset prices (2021) to the largest decline since 2008 (2022).

Economic Definitions

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

Retail Sales: Retail sales (also referred to as retail trade) tracks the resale of new and used goods to the general public, for personal or household consumption. This concept is based on the value of goods sold.

Building Permits: This concept tracks the number of permits that have been issued for new construction, additions to pre-existing structures or major renovations. These statistics are based on the number of construction permits approved.

Housing Starts: Housing (or building) starts track the number of new housing units (or buildings) that have been started during the reference period.

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.

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.

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.

Disclosures

Index performance does not reflect the deduction of any fees and expenses, and if deducted, performance would be reduced. Indexes are unmanaged and investors are not able to invest directly into any index. Past performance cannot guarantee future results.

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[1] Data Obtained from Bloomberg as of 05/19/2023.
[2] Data Obtained from Morningstar as of 05/19/2023.
[3] https://news.northwesternmutual.com/planning-and-progress-study
[4] https://home.treasury.gov/policy-issues/financial-markets-financial-institutions-and-fiscal-service/debt-limit
[5] https://bilello.blog/2023/the-week-in-charts-5-20-23