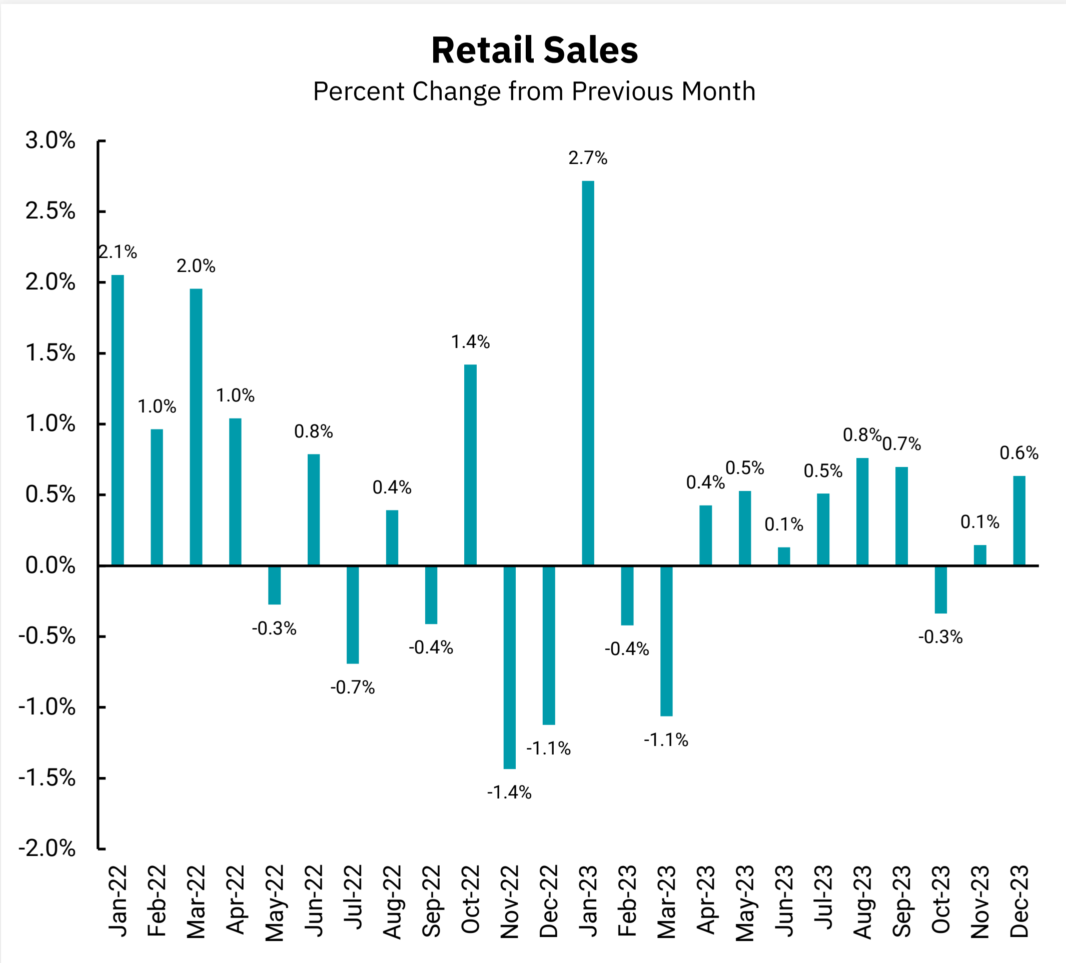
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Jan. 19, 2024)



After a solid run of increasing retail sales for most of 2023, a decline in October raised some questions about the ability of the U.S. consumer's ability to continue to spend. Consumer spending is the biggest component of gross domestic product (GDP), so this heightened anxiety was understandable, especially at the beginning of the all-important holiday shopping season.

The concern seems unfounded now, however, as data released this week showed a better-than-expected 0.6% increase in retail sales in December. In addition, inflation has been falling, meaning most of this increase was in real terms. It is understandable to be a bit cautious as we think about how far the Federal Reserve has moved interest rates and the ongoing shrinking of their balance sheet. Still, to date, the employment market remains firm, which is acting as a strong support for consumers. The weekly reading on jobless claims showed initial claims falling to only 187,000, near a multi-decade low and reflective of an outlook for continued low rates of unemployment.

Our outlook from here is that the Fed's next move will be toward lowering rates. This view is primarily driven by an expectation for inflation to continue to moderate, which should allow the Fed to lower overnight interest rates. Overall inflation declines are being helped by lower energy prices, and an increased supply of multi-family units should allow rents to soften over the coming months. Changes to the global economy, multiple armed conflicts and the still-strong labor market will be potential headwinds to the Fed accomplishing its goal of getting inflation to 2% and keeping it there. Hence, it is way too early for the Fed to consider inflation a past problem.

Somewhat lower rates would be a welcome development for potential home buyers, but we should not expect a return to the ultra-low mortgage rates borrowers enjoyed during the pandemic. On the flip side, this also means savers should not have to bear the brunt of near-zero interest rates on shorter savings and deposits as well.

We expect economic growth to slow from levels we saw in the back half of 2023 yet remain positive, inflation to continue its recent decline and corporate profitability to support equity valuations. A recession remains a possibility but is not our base case.

Source: Federal Reserve Bank of St. Louis.

INVESTMENT MANAGEMENT

Weekly market update

BOK FINANCIAL

Commentary (Jan. 19, 2024)

Domestic Equities

- U.S. large-cap technology stocks inched higher this week while other sectors were flat to slightly down. Small caps declined and are down close to 5% this month after a strong fourth-quarter rally.
- Tech stocks were boosted by reports from semiconductor companies indicating that the industry is recovering from last year's inventory glut.
- Investors have become more skeptical that the Federal Reserve will begin cutting rates as soon as March, which is weighing on sectors outside of technology.
- Earnings season is still in the early stages and has been lackluster so far, with only about half of companies outpacing revenue estimates. As the season picks up in the coming weeks, heightened valuations mean companies face a high bar to reaffirm growth expectations or their stock prices will likely be penalized.

Bonds

- U.S. Treasury yields jumped on better-than-expected economic data and central bank officials trying to temper rate cut expectations. Most notably, Fed President Bostic's outlook is for the first cut to occur in the third quarter, while Fed Governor Waller urged caution in cutting rates too quickly. At the weekend, markets are now pricing in just over a 50% probability that the Fed will begin cutting rates in March, with a total of over five cuts in 2024.
- The broad investment grade market, as measured by the Bloomberg U.S. Aggregate Bonded Index, was negative for the week, with longer-duration U.S. Treasuries and corporates weighing most heavily on returns.
- China's central bank surprised markets by keeping rates unchanged despite continued weakness across the Chinese economy. It's broadly assumed that this decision was mostly due to concerns over the currency depreciating further.

International Equities

- Geopolitical issues continue to dominate the headlines as attacks on merchant shipping in the Red Sea continue. Investors continue to assess how these events could impact the global supply chain, inflation and economic growth.
- Developed markets tumbled this week as most markets across the Pacific and European regions fell. European investors received mixed messages from European Central Bank officials at Davos. Some were hawkish about interest rate cuts, believing market rate cut expectations have gotten ahead of themselves. Others think that a spring rate cut is still a possibility.
- Emerging markets tumbled this week, with weakness across most regions and markets. China's economy grew by 5.2% during the fourth quarter, slightly missing expectations of a 5.3% growth rate. GDP climbed 5.2% for 2023, slightly ahead of the government's target of 5%.

Economics

- The University of Michigan's consumer sentiment survey rose to 78.8%, the highest level since July 2021. Year-ahead inflation expectations declined to 3.1%, the lowest level since March 2021.
- The Census Bureau reported retail sales in December increased 0.6% in the month, totaling $710 billion and representing the largest monthly increase since September 2023. Over the prior year, total retail sales increased 5.6%.
- The Federal Reserve's report on industrial production and capacity utilization indicated industrial production increased 0.1% as output increased in the month. Capacity utilization remained at 78.6% during the month. Over the prior year, industrial production increased 1%.
- The Census Bureau reported housing starts in December were 4.3% lower than the November level, totaling 1.46 million at an annualized rate.

Weekly Market Update

For Week Ending January 19, 2024

Markets

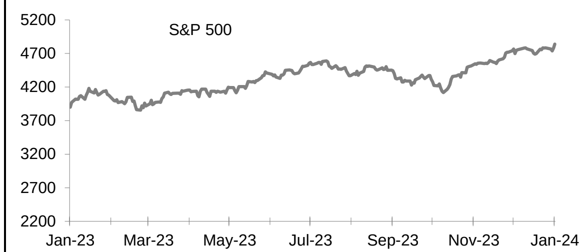
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	37,863.80	0.8%	0.5%	17.1%
S&P 500 Index	4,839.81	1.2%	1.5%	26.1%
NASDAQ Composite	15,310.97	2.3%	2.0%	42.3%
S&P 400 Midcap Index	2,740.96	0.5%	-1.4%	10.8%
S&P 600 Smallcap Index	1,270.34	0.0%	-3.6%	7.5%
MSCI EAFE	7,587.74	-2.1%	-2.5%	8.2%
MSCI Emerging Markets	506.46	-2.5%	-5.1%	-3.1%
Bloomberg US Agg	2,131.96	-1.1%	-1.4%	0.7%
Bloomberg Municipal 5 Yr	484.86	-0.5%	-0.8%	1.5%
Bloomberg US Corporate	3,179.36	-1.0%	-1.3%	2.9%
Bloomberg Glb Agg ex US Hdg	559.73	-0.6%	-0.9%	4.9%
Bloomberg High Yield	2,463.18	-0.5%	-0.7%	8.7%
MSCI US REIT Index	2,099.41	-1.9%	-2.3%	4.8%
Bloomberg Commodity Index	222.88	-1.1%	-1.6%	-8.8%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	5.50%	4.50%
3-Month Treasury	5.34%	5.35%	5.33%	4.64%
1-Year Treasury	4.84%	4.66%	4.76%	4.65%
2-Year Treasury	4.38%	4.14%	4.25%	4.13%
5-Year Treasury	4.05%	3.83%	3.85%	3.48%
7-Year Treasury	4.09%	3.89%	3.88%	3.43%
10-Year Treasury	4.12%	3.94%	3.88%	3.39%
30-Year Treasury	4.33%	4.18%	4.03%	3.56%
Consumer Rates				
30-Year Mortgage	7.03%	6.93%	6.99%	5.83%
Prime Rate	9.25%	9.25%	8.50%	8.25%
SOFR	5.31%	5.31%	5.38%	4.31%
Commodities				
Gold	2,029.49	2,049.06	2,062.98	1,932.24
Crude Oil (WTI)	73.41	72.68	71.65	77.08
Gasoline	3.08	3.07	3.12	3.39
Natural Gas	2.52	3.31	2.51	4.50
Copper	3.79	3.74	3.89	4.23

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.07	21.46	4.86	1.90
S&P 500	20.45	21.86	4.55	1.46
S&P 500 Value	15.77	18.73	2.98	2.41
S&P 500 Growth	27.28	24.73	7.75	0.68
NASDAQ	28.08	36.47	6.13	0.78
S&P Midcap 400	15.32	15.73	2.38	1.98
S&P Smallcap 600	14.93	13.87	1.77	1.77
MSCI EAFE	13.37	13.66	1.71	3.37
MSCI Emerging Markets	11.54	13.74	1.51	3.30

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	-0.21	1.60	3.19
Mid	-2.67	-1.43	-0.23
Small	-4.49	-3.19	-1.90

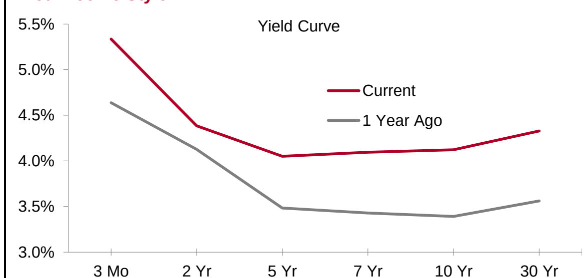
Legend: > 10%; 0% - 10%; <0%

*S&P Indices

Year to Date*

	Value	Core	Growth
Large	-0.53	1.53	3.34
Mid	-2.67	-1.41	-0.18
Small	-5.04	-3.57	-2.13

Fixed Income Style



1 Month*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	0.36	-0.04	-4.00
Corp	0.50	0.08	-2.09
HY	0.37	0.15	-0.23

Legend: > 10%; 0% - 10%; <0%

Year to Date*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	-0.03	-0.55	-4.60
Corp	0.05	-0.63	-2.59
HY	-0.10	-0.67	-0.95

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.4%	6.5%
CPI Core Inflation	3.9%	5.7%
Personal Consumption Exp (PCE) Core	3.2%	5.1%
Jobs		
Unemployment Rate (U3)	3.7%	3.5%
Broader Unemployment Rate (U6)	7.1%	6.5%
JOLT Survey (in millions)	8.79	10.75
Jobless Claims (000's)	187	200
Change in Non-Farm Payroll (000's)	216	239
Average Hourly Earnings (Y/Y % Change)	4.1%	4.8%
Consumer & Spending		
Consumer Confidence (Conf Board)	110.7	109.0
Consumer Spending ($ Bil)	18,859	17,892
Consumer Credit ($ Bil)	5,010	4,875
Retail Sales ($ Bil)	710	672
Housing		
Housing Starts (000's)	1,460	1,357
Case-Shiller Home Price Index	312.95	298.71
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	22,491	21,851
Quarter over Quarter Change	4.9%	2.7%
Year Over Year Change	2.9%	1.7%
ISM Manufacturing	47.40	48.40
Capacity Utilization	78.57	78.92
Markit US Composite PMI	50.90	45.00
U.S. General		
Leading Economic Indicators	103.0	111.5
Trade Weighted Dollar Index	119.9	119.4
EUR / USD	1.09	1.08
JPY / USD	148.12	128.43
CAD / USD	0.74	0.74
AUD / USD	0.66	0.69

S&P 500 Sector Returns

	1 Month	YTD
Information Technology	4.79%	4.98%
Communication Services	5.29%	4.42%
Health Care	3.57%	2.36%
Financials	0.99%	0.84%
Consumer Staples	0.88%	0.29%
Industrials	-0.70%	-1.28%
Consumer Discretionary	-2.84%	-1.47%
Real Estate	-2.58%	-3.36%
Utilities	-4.09%	-3.77%
Materials	-3.80%	-3.88%
Energy	-5.91%	-4.29%

Disclosures