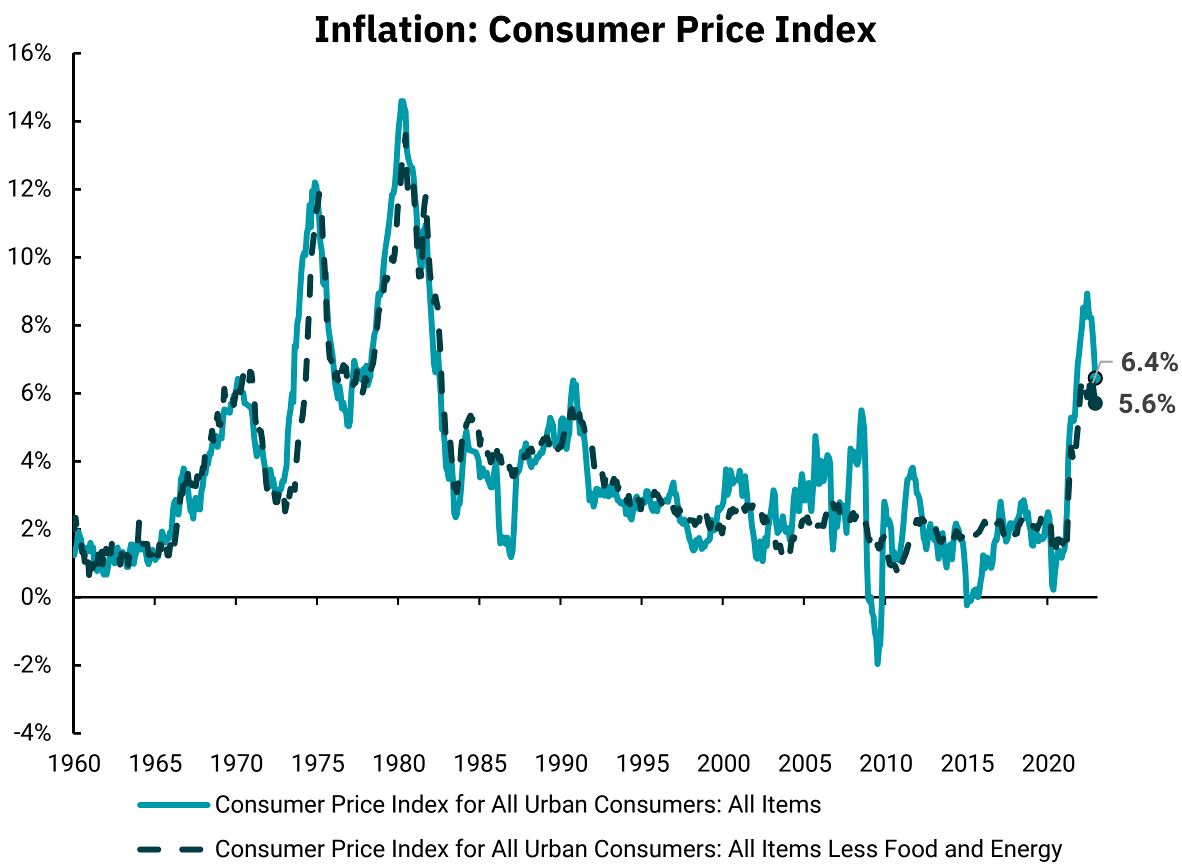
INVESTMENT MANAGEMENT

Weekly market update

BOK FINANCIAL

Chart of the week (Feb. 17, 2023)



Recent data on inflation, as measured by the Consumer Price Index (CPI), indicates the trip toward the Fed's 2% target might be a bit bumpy. While we saw headline and core inflation measures decline year-over-year, the month-over-month numbers moved slightly higher than expected. Volatile food and energy prices along with rents continuing to rise, led to higher-than-expected numbers, and the labor market remains robust with low unemployment and numerous job openings.

We know this recent bout of inflation is the worst since the early 80s. However, in this week's chart, we wanted to look at a longer period, as doing so helps reveal why the Federal Reserve is still so cautious on inflation. Note the left-hand side of the chart where we see an early bout of inflation in the late 60s and early 70s. In response, the Federal Reserve increased interest rates but then quickly eased as the economy slowed. Unfortunately, this easing of monetary policy led to a quick rebound in inflation, which peaked at an even higher rate of 15% before the Fed again raised interest rates and slowed the economy.

By this time, Paul Volker was the Chairman of the Fed, and he embarked on tightening monetary policy, which took short-term rates to 20% and eventually led to a very deep recession with unemployment reaching over 10%. Even as the economy weakened and inflation slowed, Chair Volker kept rates high to finally make sure it would not come back as it had previously done. The early 80s were not a good period in U.S. economic history; however, as the chart shows, inflation did not come back and we entered a long period of slowing and more stable inflation.

It was not only monetary policy at play over all this time, but current Fed Chair Jerome Powell wants to avoid the "stop-and-go" monetary policy of this earlier period. The lesson learned was to not back off on policy rates too soon lest we risk inflation coming back even stronger. This is one important reason why we think the Fed will be careful as they consider inflation and monetary policy over the coming months and quarters. Rates may fall more slowly than we have seen in recent periods.

Source: Federal Reserve Bank of St. Louis

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Commentary (Feb. 17, 2023)

Domestic Equities

- U.S. equities continued declining this week on renewed concerns over inflation.
- The Consumer Price Index (CPI) rose 6.4% from a year ago, ahead of expectations. After declining in Nov. and Dec., retail spending in Jan. roared back with a 3% monthly increase. In light of these data points, Fed officials speaking this week alluded to the possibility of raising rates by more than 0.25% in coming meetings. Investors are switching from an outlook of rate cuts later this year to the idea that inflation remains persistent and will force the Fed to push interest rates much higher.
- Deere reported quarterly profit that more than doubled on strong demand. DoorDash also had a strong report on increased demand. Moderna stock fell on mixed results of a flu vaccine clinical trial, and Tesla shares fell as they announced a massive safety recall.

Bonds

- U.S. Treasury yields moved higher across the curve for the third consecutive week, with investors turning more cautious following the release of stronger-than-expected U.S. inflation data. Hawkish comments by Fed governors Bullard and Meister also added to weakness across rates markets, with the yield on both the 6- and 12-month U.S. T-bills exceeding 5% for the first time in over a decade.
- The TIPs market continues to price in higher inflation expectations for 2023, with the 1-Year U.S. Breakeven Inflation Rate exceeding 3% for the first time this year after reaching a low of 1.62% in Jan.
- In international markets, academic economist Kazuo Ueda was nominated by Japan's government to become the next governor of the Bank of Japan (BOJ). He will succeed the long-time central bank chief, Governor Haruhiko Kuroda, who is expected to retire in Apr.

International Equities

- The path of U.S. monetary policy dominated global investor sentiment after two Fed officials indicated they favor returning to 0.50% hikes to battle persistently high inflation, which deflated investor sentiment.
- Foreign developed markets experienced a mixed week, with gains seen across many European markets while those markets within key Pacific Rim markets struggled. European Central Bank President, Christine Lagarde, reiterated the bank's intention to raise borrowing costs another 0.50% next month due to ongoing inflation pressures in the region.
- Emerging markets fell for the third consecutive week as weakness across Asian markets drove the index lower, despite some gains seen across select Latin American and Eastern European markets. Turkish stocks surged over 10% after the country reopened its stock market after earthquakes destroyed large parts of 10 cities in Turkey.

Economics

- The Bureau of Labor Statistics (BLS) reported that the Consumer Price Index for all urban consumers (CPI-U) increased 0.50% in Jan. and 6.4% over the prior 12 months. Most of the monthly increase was due to rising shelter costs. Core CPI, which excludes food and energy, rose 0.40% in Jan. and 5.6% over the prior 12 months.
- The BLS also reported that the Producer Price Index for final demand (PPI) increased 0.70% in Jan., with goods increasing 1.20% and services increasing 0.40%. Over the prior 12 months, PPI increased 6%.
- The Census Bureau reported retail sales for Jan. increased by $20 billion (+3%) to total $697 billion for the month.
- The second estimate of fourth-quarter GDP will be released on Thursday, and consumer spending and income will be released on Friday.

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Weekly Market Update

For Week Ending February 17, 2023

Markets

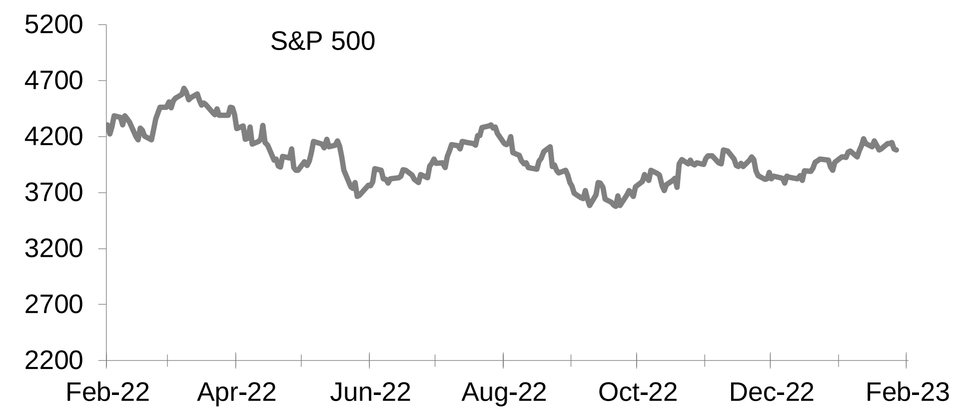
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	33,826.69	0.0%	2.3%	0.7%
S&P 500 Index	4,079.09	-0.2%	6.5%	-5.3%
NASDAQ	11,787.27	0.6%	12.8%	-13.3%
S&P 400 Midcap Index	2,666.12	1.1%	9.9%	2.5%
S&P 600 Smallcap Index	1,282.52	1.4%	11.0%	-0.1%
MSCI EAFE	7,075.13	0.1%	7.5%	-4.9%
MSCI Emerging Markets	508.34	-1.4%	4.6%	-17.2%
Bloomberg US Agg	2,070.62	-0.5%	1.1%	-8.6%
Bloomberg Municipal 5 Yr	470.71	-1.3%	0.4%	-1.9%
Bloomberg US Corporate	3,012.52	-0.7%	1.5%	-9.2%
Bloomberg Glb Agg ex US Hdg	527.99	-0.3%	1.3%	-6.3%
Bloomberg High Yield	2,233.58	-0.9%	2.2%	-5.2%
MSCI US REIT Index	2,083.53	-0.8%	8.8%	-9.9%
Bloomberg Commodity Index	233.67	-1.9%	-5.0%	-1.9%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	4.75%	4.75%	4.50%	0.25%
3-Month Treasury	4.79%	4.73%	4.34%	0.34%
1-Year Treasury	4.97%	4.87%	4.69%	0.98%
2-Year Treasury	4.62%	4.52%	4.43%	1.47%
5-Year Treasury	4.03%	3.92%	4.00%	1.84%
7-Year Treasury	3.94%	3.85%	3.97%	1.94%
10-Year Treasury	3.81%	3.73%	3.87%	1.96%
30-Year Treasury	3.87%	3.82%	3.96%	2.29%
Consumer Rates				
30-Year Mortgage	6.83%	6.66%	6.66%	4.19%
Prime Rate	8.50%	8.50%	8.25%	4.00%
3-Month LIBOR	4.92%	4.87%	4.77%	0.48%
Commodities				
Gold	1,842.36	1,865.57	1,824.02	1,898.43
Crude Oil (WTI)	76.34	79.72	80.26	78.01
Gasoline	3.55	3.50	3.20	3.58
Natural Gas	2.28	2.51	4.48	4.31
Copper	4.11	4.03	3.81	4.46

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	17.84	19.16	4.42	2.17
S&P 500	18.49	18.23	3.98	1.73
S&P 500 Value	17.31	17.45	2.77	2.09
S&P 500 Growth	19.73	19.03	6.67	1.39
NASDAQ	17.09	15.59	3.81	2.30
S&P Midcap 400	15.51	4.60	2.49	1.81
S&P Smallcap 600	14.88	13.27	1.94	1.84
MSCI EAFE	13.18	14.44	1.74	3.23
MSCI Emerging Markets	12.39	10.72	1.52	3.68

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	1.55	2.38	3.16
Mid	3.60	3.63	3.66
Small	5.06	4.00	3.01

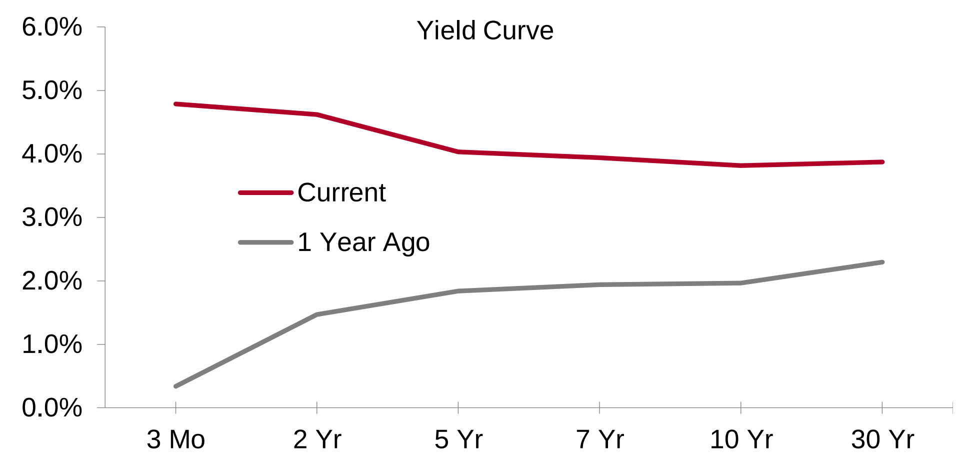
Year to Date*

	Value	Core	Growth
Large	6.85	6.48	6.15
Mid	11.47	9.89	8.32
Small	13.35	10.98	8.78

Legend: > 10% · 0% - 10% · <0%

*S&P Indices

Fixed Income Style



1 Month*

	Short	Interm.	Long
Govt	-0.46	-1.13	-3.10
Corp	-0.18	-1.66	-3.48
HY	0.25	-1.63	-2.34

Year to Date*

	Short	Interm.	Long
Govt	0.16	0.25	2.16
Corp	0.54	1.65	2.36
HY	2.44	2.16	2.49

Legend: > 10% · 0% - 10% · <0%

*Bloomberg Barclays Indices.

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	6.4%	7.5%
CPI Core Inflation	5.6%	6.0%
Personal Consumption Exp (PCE) Core	4.4%	5.0%
Jobs		
Unemployment Rate (U3)	3.4%	4.0%
Broader Unemployment Rate (U6)	6.6%	7.1%
JOLT Survey (in millions)	11.01	11.45
Jobless Claims (000's)	194	209
Change in Non-Farm Payroll (000's)	517	364
Average Hourly Earnings (Y/Y % Change)	4.4%	5.7%
Consumer & Spending		
Consumer Confidence (Conf Board)	107.1	111.1
Consumer Spending ($ Bil)	17,737	16,522
Consumer Credit ($ Bil)	4,776	4,431
Retail Sales ($ Bil)	697	655
Housing		
Housing Starts (000's)	1,309	1,666
Case-Shiller Home Price Index	297.29	276.07
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	20,198	20,006
Quarter over Quarter Change	2.9%	7.0%
Year Over Year Change	1.0%	5.7%
ISM Manufacturing	47.40	57.60
Capacity Utilization	78.28	78.94
Markit US Composite PMI	46.80	51.10
U.S. General		
Leading Economic Indicators	110.3	117.2
Trade Weighted Dollar Index	119.9	114.6
EUR / USD	1.07	1.14
JPY / USD	134.15	114.94
CAD / USD	0.74	0.79
AUD / USD	0.69	0.72

S&P 500 Sector Returns

	1 Month	YTD
Consumer Discretionary	7.64%	16.49%
Communication Services	5.79%	13.39%
Information Technology	6.74%	12.41%
Real Estate	0.14%	7.24%
Financials	1.42%	6.27%
Industrials	1.40%	4.86%
Materials	-1.95%	4.67%
Consumer Staples	-1.34%	-1.06%
Health Care	-2.06%	-2.82%
Utilities	-3.85%	-2.86%
Energy	-6.23%	-3.59%

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