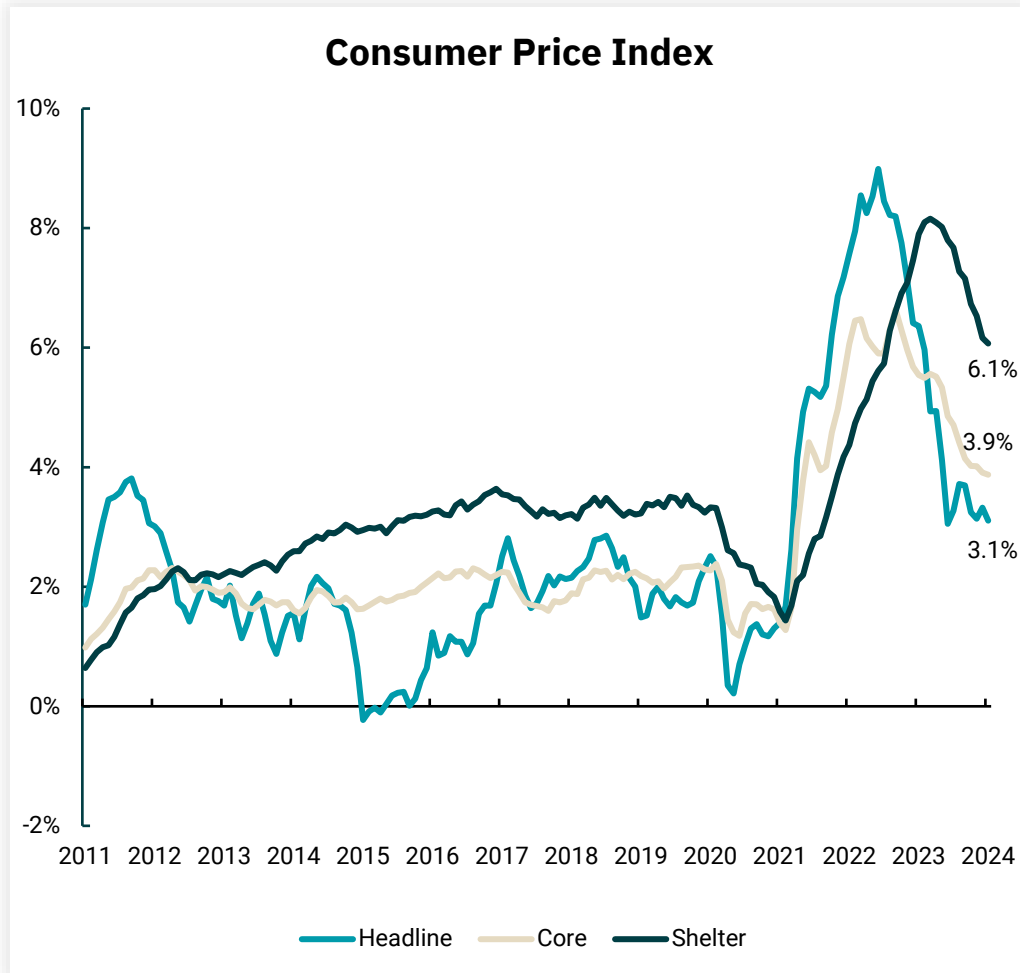


# Weekly market update



## Chart of the week (Feb. 23, 2024)



Despite a bit of a setback in the last inflation report, the overall trend in inflation is lower. As supply chains continue to heal, the inflation rate for goods is falling rapidly, and a mild winter is keeping energy costs low. Yet despite areas where prices are deflating, like flat-screen TVs, the decline in the inflation rate merely means prices are rising more slowly, and the overall price level for consumers remains high.

Moreover, the Federal Reserve pays more attention to the "core" rate of inflation, which [at 3.9%](#), is still almost twice the Fed's 2% target. Recent comments by Fed governors have acknowledged the good news in the inflation trend but have expressed a need to see "more evidence" of inflation moving sustainably towards the 2% inflation target. We know wages are an important component of the Fed's views on longer term inflation, yet wages are not directly measured within the [Consumer Price Index \(CPI\)](#) report. The biggest component impacting the core CPI rate is shelter costs. In this respect, there are two components to measuring shelter inflation: rents and owners' equivalent rents or OER.

This week's chart shows the shelter component of the CPI remaining well above the Fed's targets, responsible for pulling both the headline and core rates higher. However, the trend is lower in real-time data, like Zillow, where rents are declining in some regions. As single-family home sales have slowed, there has been a significant increase in the construction of multi-family rental units. This new supply, estimated at more than one million new units this year, should allow the downtrend in actual rents to continue. However, owners' equivalent rents (OER) is based on the survey of single-family homeowners and their estimate of what they would pay in rent, comparable to their cost of ownership. As such, OER tends to lag in periods when inflation becomes more volatile. Homeowners' views on their home values and what corresponding rents might be tend to move in the general direction of inflation but at a slower pace.

In periods of rapid inflation, the core rate might move more slowly than the headline rate, as food and energy prices respond more quickly. This can be seen in the chart as the blue line moving above the beige line as inflation took off in 2021 and 2022. This also results in core inflation falling more slowly, as shown in the chart. The more volatile nature of the headline rate of inflation is a key reason why the Fed focuses on core readings. Still, in periods like this, where headline inflation is falling rapidly, it might seem the Fed is moving too slowly and keeping rates excessively high.

Our sense is the Fed will begin to lower rates as we move through spring toward summer. However, the firm housing market, where home values remain high, will mean OER will decline slower than actual rents, keeping the shelter component of CPI higher for longer. Unfortunately, it does not appear that the overall supply of single-family homes will increase at levels to meet demand anytime soon. Multi-family housing is helping now, but looking longer term, the supply of new units is expected to decline as higher rates make new projects less viable.

# Weekly market update

Commentary (Feb. 23, 2024)



## Domestic Equities

- All three major U.S. stock market indices—the Dow Jones Industrial Average, the S&P 500 and the Nasdaq composite—reached record highs on Thursday and ended the week with gains over 1%.
- Earnings season is drawing to a close, but not without a grand finale from Nvidia. Revenue for last quarter and the forecast for next quarter came in 10% above expectations. The stock gained over a quarter of a trillion dollars in market cap in one day following the report and now sits at over \$2 trillion.
- Rivian reported disappointing results this week. The company is laying off 10% of its workforce, and production for the year will be far lower than analysts had anticipated. Electric vehicle demand has taken a significant hit in the face of high interest rates. The stock fell over 35% this week. RIVN came to market at \$130 in November 2021 and now sits just over \$10.

## Bonds

- U.S. Treasuries were mixed with yields on most short-to-intermediate maturities ending the week flat to higher on positive employment and housing data and the release of minutes from the January FOMC meeting. The long end of the curve was also initially pushed higher by a soft 20-year auction but finished the week lower, tracking the move lower in eurozone rates.
- Across the broad U.S. investment-grade market, corporate bonds continued to outperform, with credit spreads making a new low for the year.
- Following the rallying in U.S. equities, junk bonds rallied, with returns across the sector outpacing the investment grade market.
- In international markets, eurozone bond yields moved lower on dovish comments by several European Central Bank (ECB) officials. Emerging market debt also rallied on a weaker U.S. dollar and a surprise rate cut by the People's Bank of China (PBOC).

## International Equities

- Global markets hit record highs this week as the frenzy around artificial intelligence boosted risk sentiment and rekindled hopes that economic growth will strengthen. The STOXX Europe 600 and Japan's Nikkei 225 reached all-time highs this week.
- Foreign stocks rallied this week, with decent gains across most Pacific and European regional markets. The German economy contracted 0.3% in the fourth quarter of 2023, the second consecutive quarterly decline, suggesting the country faces more profound economic challenges.
- Emerging market stocks delivered their fifth consecutive week of gains as many markets across Asia, Latin America, and Eastern Europe maintained their momentum. China's CSI 300 Index extended its winning streak for nine consecutive days as policymakers have taken more aggressive actions to stabilize its stock markets.

## Economics

- The National Association of Realtors reported existing home sales increased 3.1% in January at a seasonally adjusted annual rate. Additionally, the median price increased 5% over the prior 12 months.
- The Chicago Fed National Activity Index declined by 0.30, indicating that economic growth slowed in January.
- The Department of Labor reported initial claims for unemployment insurance for the week ending Feb. 17 were 201,000, a decline of 12,000 from the prior week and 14,250 below the four-week moving average. Continuing claims were 1.86 million and have been in a narrow range since the beginning of Nov. 2023.
- The Conference Board measure of consumer confidence will be released on Tuesday. The second estimate of fourth-quarter GDP will be released on Wednesday. Consumer spending and income will be released on Thursday.

## Weekly Market Update

For Week Ending February 23, 2024

### Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
<b>Capital Markets</b>				
Dow Jones Industrial Avg	39,131.53	1.3%	4.1%	20.5%
S&P 500 Index	5,088.80	1.7%	6.9%	28.9%
NASDAQ Composite	15,996.82	1.4%	6.7%	39.1%
S&P 400 Midcap Index	2,858.02	1.1%	2.9%	11.1%
S&P 600 Smallcap Index	1,295.48	-0.7%	-1.5%	5.0%
MSCI EAFE	7,977.62	1.4%	2.5%	14.1%
MSCI Emerging Markets	536.87	1.2%	0.6%	6.9%
Bloomberg US Agg	2,123.81	0.3%	-1.8%	2.9%
Bloomberg Municipal 5 Yr	487.12	0.1%	-0.4%	3.9%
Bloomberg US Corporate	3,172.82	0.4%	-1.5%	5.7%
Bloomberg Glb Agg ex US Hdg	562.86	0.4%	-0.3%	6.8%
Bloomberg High Yield	2,486.52	0.4%	0.3%	11.3%
MSCI US REIT Index	2,090.29	0.4%	-2.8%	2.0%
Bloomberg Commodity Index	220.80	-0.8%	-2.5%	-5.1%

### Key Rates

	Last Price/Yield	Prior Week	Year End	Year Ago
Fed Funds Target	5.50%	5.50%	5.50%	4.75%
3-Month Treasury	5.40%	5.37%	5.33%	4.81%
1-Year Treasury	4.99%	4.95%	4.76%	5.01%
2-Year Treasury	4.69%	4.64%	4.25%	4.70%
5-Year Treasury	4.28%	4.27%	3.85%	4.11%
7-Year Treasury	4.28%	4.29%	3.88%	4.03%
10-Year Treasury	4.25%	4.28%	3.88%	3.88%
30-Year Treasury	4.37%	4.44%	4.03%	3.88%

### Consumer Rates

	Last Price/Yield	Prior Week	Year End	Year Ago
30-Year Mortgage	7.30%	7.31%	6.99%	5.83%
Prime Rate	9.25%	9.25%	9.25%	8.50%
SOFR	5.31%	5.30%	5.38%	4.55%

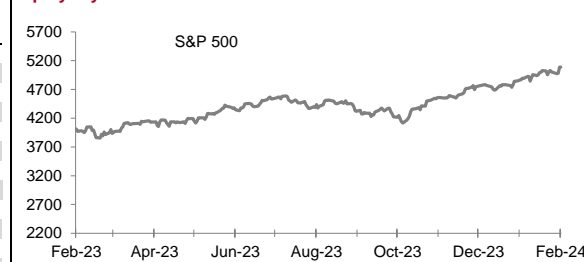
### Commodities

	Last Price	Prior Week	Year End	Year Ago
Gold	2,035.40	2,013.59	2,062.98	1,822.28
Crude Oil (WTI)	76.49	78.46	71.65	72.57
Gasoline	3.26	3.28	3.12	3.39
Natural Gas	1.60	1.61	2.33	3.56
Copper	3.90	3.85	3.89	4.05

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
<b>Index Characteristics</b>				
Dow Jones Industrial Avg	18.53	21.39	4.87	1.93
S&P 500	21.22	22.82	4.63	1.47
S&P 500 Value	16.53	16.95	2.74	2.41
S&P 500 Growth	27.68	26.77	8.39	0.63
NASDAQ	28.25	37.98	6.42	0.73
S&P Midcap 400	16.30	16.24	2.49	1.74
S&P Smallcap 600	15.54	14.29	1.83	2.11
MSCI EAFE	14.30	13.80	1.81	3.32
MSCI Emerging Markets	12.55	14.68	1.62	3.13

Source: Bloomberg

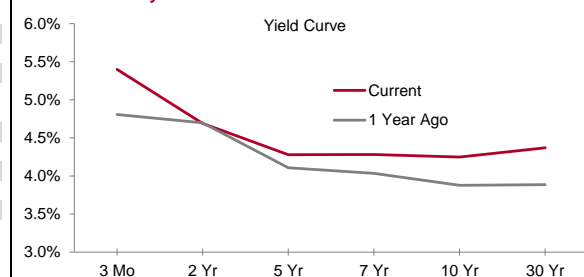
### Equity Style



1 Month*			Year to Date*		
Value	Core	Growth	Value	Core	Growth
Large 3.42	4.76	5.89	Large 3.42	6.91	9.97
Mid 0.39	3.64	6.71	Mid -1.52	2.92	7.23
Small -0.53	0.75	2.01	Small -3.92	-1.53	0.85

\*S&P Indices

### Fixed Income Style



1 Month*			Year to Date*		
Short	Interm.	Long	Short	Interm.	Long
Govt -0.21	-0.50	-0.01	Govt -0.17	-0.98	-4.71
Corp 0.10	-0.07	-0.44	Corp 0.21	-0.63	-3.19
HY 0.72	0.72	1.29	HY 0.79	0.26	0.58

### Economic Data

	Last Release	Year Ago
<b>Inflation</b>		
CPI Headline Inflation	3.1%	6.4%
CPI Core Inflation	3.9%	5.6%
Personal Consumption Exp (PCE) Core	2.9%	4.9%
<b>Jobs</b>		
Unemployment Rate (U3)	3.7%	3.4%
Broader Unemployment Rate (U6)	7.2%	6.7%
JOLT Survey (in millions)	9.03	11.23
Jobless Claims (000's)	201	217
Change in Non-Farm Payroll (000's)	353	482
Average Hourly Earnings (Y/Y % Change)	4.5%	4.6%
<b>Consumer &amp; Spending</b>		
Consumer Confidence (Conf Board)	114.8	106.0
Consumer Spending (\$ Bil)	19,002	17,944
Consumer Credit (\$ Bil)	5,010	4,894
Retail Sales (\$ Bil)	700	696
<b>Housing</b>		
Housing Starts (000's)	1,331	1,340
Case-Shiller Home Price Index	312.15	296.90
<b>U.S. Productivity</b>		
Real Gross Domestic Product (\$ Bil)	22,673	21,990
Quarter over Quarter Change	3.3%	2.6%
Year Over Year Change	3.1%	0.7%
ISM Manufacturing	49.10	47.40
Capacity Utilization	78.53	79.64
Markit US Composite PMI	51.40	50.10
<b>U.S. General</b>		
Leading Economic Indicators	102.7	110.4
Trade Weighted Dollar Index	121.5	120.5
EUR / USD	1.08	1.06
JPY / USD	150.51	134.70
CAD / USD	0.74	0.74
AUD / USD	0.66	0.68

### S&P 500 Sector Returns

	1 Month	YTD
Communication Services	6.08%	11.91%
Information Technology	3.64%	9.71%
Health Care	5.64%	8.49%
Financials	5.61%	7.11%
Industrials	6.17%	5.53%
Consumer Staples	3.39%	4.32%
Consumer Discretionary	5.35%	3.14%
Energy	6.59%	2.66%
Materials	4.85%	-1.41%
Utilities	1.93%	-2.19%
Real Estate	0.11%	-3.32%

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