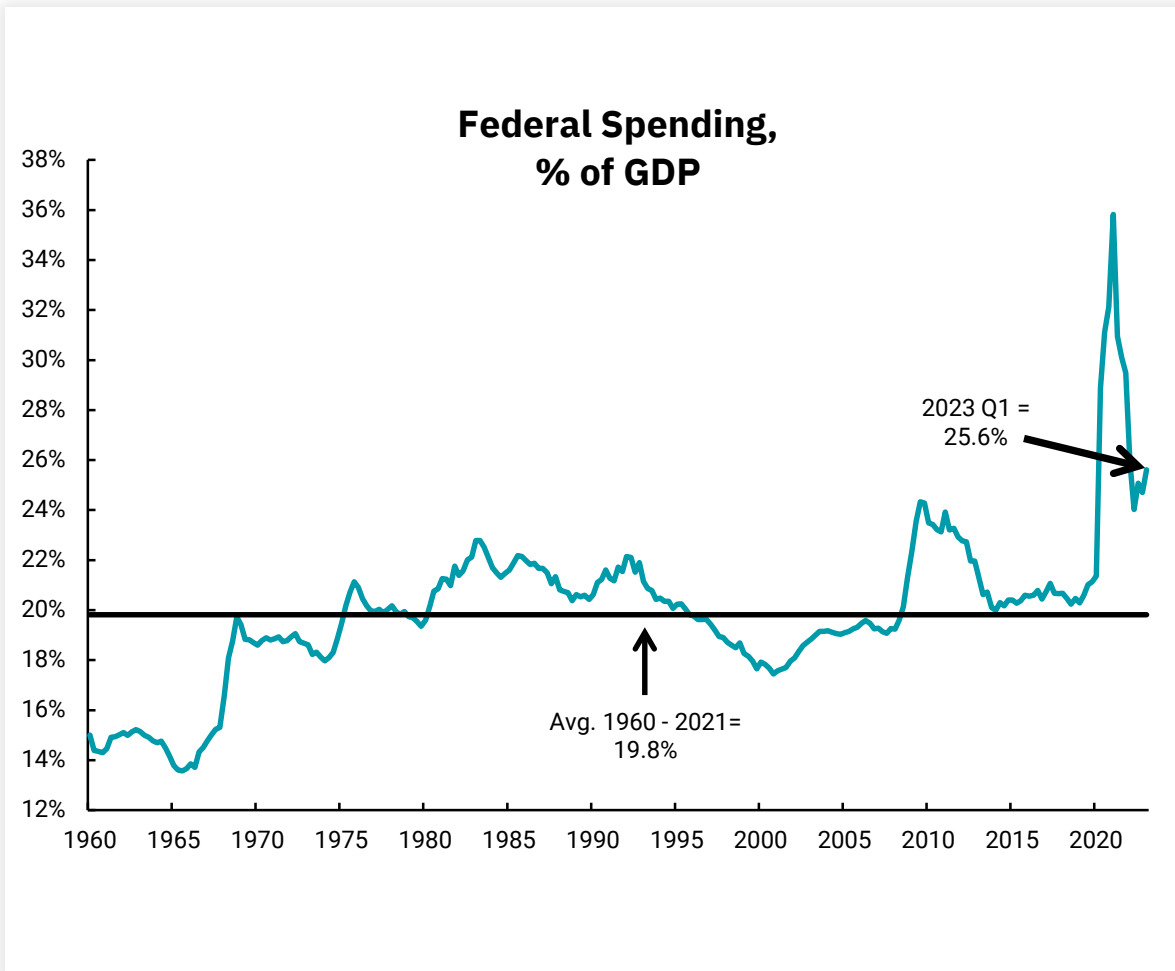


# Weekly market update



## Chart of the week (May 19, 2023)



With the clock ticking, we are beginning to see some tentative signs of a debt ceiling extension which would help the U.S. avoid a disastrous default on its debt. Just as importantly, such an extension would prevent an interruption in cash flows from the federal government into our economy at large.

This week's chart shows the materiality of these cash flows compared to U.S. gross domestic product (GDP), which is the broadest measure of economic output. Government spending has been on an uptick since 1960. Past periods of economic stress, like the financial crisis and recessionary periods before that, show a pattern of increasing spending followed by declines as the economy grew. There is some intuitive sense to this, as periods of slow or negative growth result in slower tax collections as demand for social support goes up. In comparison, periods of economic prosperity result in higher tax collections and generally lower demand for social support.

As with much of the economic data we follow, the pandemic-related response was unprecedented – both from a monetary, and in this case, fiscal standpoint. In an effort to mitigate the risk of an extended period of economic decline, the federal government upped its spending to levels unseen in our history. And as one would expect, the economic recovery has led to higher revenues and federal spending has declined.

However, as we think about moving ahead, we can see the decline in spending has not returned to pre-pandemic levels. Instead, the federal government continues to spend at levels that exceed the peak of spending during the financial crisis.

Of course, spending is only one side of the economic equation, revenues being the other. The difference between spending and revenue equates to our annual budget deficit, which accumulates over time to total our outstanding debt.

We think it is important to temper expectations of a quick return to anything close to a balanced budget, and neither Republicans nor Democrats are calling for that. And while we know it is always harder to cut spending than to add to it, a big-picture view would indicate we are now spending at levels that may not be sustainable in the long run. As we have stated before, the need for leadership in Washington is high. We must balance short-run economic needs against the longer-term costs of those decisions.

# Weekly market update



## Commentary (May 19, 2023)

### Domestic Equities

- The S&P 500 Index reached its highest level so far this year on Thursday, up about 10%, before falling on Friday. Growth (technology and cyclicals) continues to lead Value (staples, financials and industrials).
- The rally this month has been driven by better-than-feared earnings, but several macro concerns loom as the season comes to a close.
- The political battle over raising the debt ceiling is also a cause for concern for investors, as a failure to do so could trigger a sharp drawdown for stocks. There was optimism that a deal could be reached over the weekend, but lawmakers paused negotiations on Friday, signaling they are far from an agreement.

### Bonds

- U.S. Treasury yields moved higher as Fed officials hinted that recent data doesn't support a pause in rate hikes quite yet. This caused traders to increase bets on the likelihood of a June rate hike, with the Fed Fund Futures ending Thursday pricing in a +35% probability of a 0.25% hike next month. However, the market tempered its more hawkish expectations on Friday, following Fed Chair Powell's speech, during which he hinted that he is more inclined to pause in June.
- With rates starting to trend higher, several corporate borrowers rushed to raise debt, with around 25 issuers tapping credit markets. This included a large bond issuance by pharmaceutical firm Pfizer, with sales ranking as the fourth-largest ever for the U.S. investment-grade corporate market. Despite the uptick in new supply, corporate spreads were fairly stable for the week, but returns were broadly negative due to rising rates.

### International Equities

- Global sentiment towards foreign stocks remains guarded as investors are hopeful for a breakthrough in U.S. debt ceiling talks, allowing investors to refocus on the outlook for the global economy and the path for interest rates.
- Foreign developed markets struggled to find some upward momentum, with many markets across Europe falling while stocks in the Pacific region inched higher. The broad-based Japanese Topix Index hit its highest level since 1990, as the country's economy has been gradually improving and corporations are delivering strong earnings results while accelerating share buybacks.
- Emerging markets moved higher this week as markets across Eastern Europe fell, but markets in Latin America and Asia posted modest gains. Investors fear China's economic recovery is losing momentum after new data showed industrial output, retail sales and fixed investment grew slower than expected in April.

### Economics

- The Census Bureau reported retail sales rose in April by 0.4%, totaling \$686 billion, reversing two consecutive monthly declines. The increase was broad-based, as most categories showed an increase in the month.
- The Federal Reserve reported industrial production rose 0.5% in April, partially due to an 8.4% month-over-month increase in automotive products output. Capacity utilization increased to 79.7%, equal to its long-run average.
- Initial claims for unemployment insurance for the week ending May 13 were 242,000, a decline of 22,000 from the prior week. Continuing claims for the week ending May 6 were 1.8 million, 8,000 lower than the prior week.
- The second estimate of first-quarter GDP will be released on Thursday, and consumer spending, personal income and the University of Michigan Consumer Confidence survey will be released on Friday.

## Weekly Market Update

For Week Ending May 19, 2023

### Markets

|                             | Last Price | Change From Prior Week | Change From Year End | Change From Year Ago |
|-----------------------------|------------|------------------------|----------------------|----------------------|
| <b>Capital Markets</b>      |            |                        |                      |                      |
| Dow Jones Industrial Avg    | 33,426.63  | 0.5%                   | 1.7%                 | 9.3%                 |
| S&P 500 Index               | 4,191.98   | 1.7%                   | 9.9%                 | 9.3%                 |
| NASDAQ                      | 12,657.90  | 3.1%                   | 21.4%                | 12.1%                |
| S&P 400 Midcap Index        | 2,455.89   | 1.0%                   | 1.7%                 | 4.5%                 |
| S&P 600 Smallcap Index      | 1,144.79   | 2.3%                   | -0.5%                | -1.0%                |
| MSCI EAFE                   | 7,330.52   | 0.4%                   | 11.3%                | 11.9%                |
| MSCI Emerging Markets       | 500.37     | 0.5%                   | 2.9%                 | -0.8%                |
| Bloomberg US Agg            | 2,087.18   | -1.4%                  | 1.9%                 | -2.1%                |
| Bloomberg Municipal 5 Yr    | 471.86     | -1.0%                  | 0.7%                 | 2.6%                 |
| Bloomberg US Corporate      | 3,026.76   | -1.5%                  | 2.0%                 | -0.9%                |
| Bloomberg Glb Agg ex US Hdg | 537.15     | -0.6%                  | 3.0%                 | -1.2%                |
| Bloomberg High Yield        | 2,267.13   | -0.4%                  | 3.7%                 | 3.6%                 |
| MSCI US REIT Index          | 1,913.48   | -2.1%                  | -0.1%                | -8.8%                |
| Bloomberg Commodity Index   | 224.46     | 0.0%                   | -8.7%                | -20.0%               |

|                  | Last Price/Yield | Prior Week | Year End | Year Ago |
|------------------|------------------|------------|----------|----------|
| <b>Key Rates</b> |                  |            |          |          |
| Fed Funds Target | 5.25%            | 5.25%      | 4.50%    | 1.00%    |
| 3-Month Treasury | 5.22%            | 5.15%      | 4.34%    | 0.98%    |
| 1-Year Treasury  | 4.98%            | 4.73%      | 4.69%    | 2.07%    |
| 2-Year Treasury  | 4.27%            | 3.99%      | 4.43%    | 2.61%    |
| 5-Year Treasury  | 3.73%            | 3.45%      | 4.00%    | 2.84%    |
| 7-Year Treasury  | 3.71%            | 3.45%      | 3.97%    | 2.86%    |
| 10-Year Treasury | 3.67%            | 3.46%      | 3.87%    | 2.84%    |
| 30-Year Treasury | 3.93%            | 3.79%      | 3.96%    | 3.05%    |

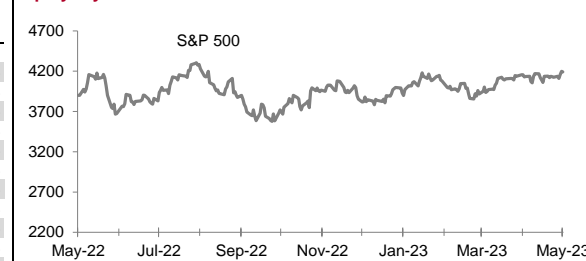
|                       | Last Price/Yield | Prior Week | Year End | Year Ago |
|-----------------------|------------------|------------|----------|----------|
| <b>Consumer Rates</b> |                  |            |          |          |
| 30-Year Mortgage      | 7.04%            | 6.89%      | 6.66%    | 5.42%    |
| Prime Rate            | 9.00%            | 9.00%      | 8.25%    | 4.75%    |
| 3-Month LIBOR         | 5.39%            | 5.32%      | 4.77%    | 1.50%    |

|                    | Last Price | Prior Week | Year End | Year Ago |
|--------------------|------------|------------|----------|----------|
| <b>Commodities</b> |            |            |          |          |
| Gold               | 1,977.81   | 2,010.77   | 1,824.02 | 1,841.85 |
| Crude Oil (WTI)    | 71.55      | 70.04      | 80.26    | 88.90    |
| Gasoline           | 3.65       | 3.64       | 3.20     | 4.59     |
| Natural Gas        | 2.59       | 2.27       | 4.48     | 4.82     |
| Copper             | 3.73       | 3.73       | 3.81     | 4.29     |

|                              | P/E Forward | P/E Trailing | Price to Book | Current Div Yield |
|------------------------------|-------------|--------------|---------------|-------------------|
| <b>Index Characteristics</b> |             |              |               |                   |
| Dow Jones Industrial Avg     | 17.68       | 18.68        | 4.29          | 2.16              |
| S&P 500                      | 19.23       | 18.78        | 4.01          | 1.67              |
| S&P 500 Value                | 17.12       | 17.28        | 2.70          | 2.09              |
| S&P 500 Growth               | 21.50       | 20.36        | 6.99          | 1.31              |
| NASDAQ                       | 16.38       | 15.06        | 3.62          | 2.32              |
| S&P Midcap 400               | 14.35       | 12.78        | 2.11          | 2.17              |
| S&P Smallcap 600             | 14.31       | 12.45        | 1.65          | 1.86              |
| MSCI EAFE                    | 12.45       | 13.21        | 1.64          | 3.38              |
| MSCI Emerging Markets        | 12.56       | 12.14        | 1.53          | 3.08              |

Source: Bloomberg

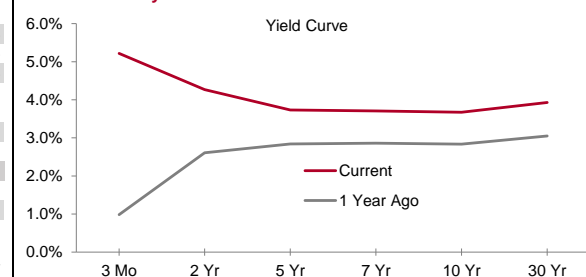
### Equity Style



| 1 Month* |       |        | Year to Date* |       |        |       |
|----------|-------|--------|---------------|-------|--------|-------|
| Value    | Core  | Growth | Value         | Core  | Growth |       |
| Large    | -0.39 | 1.07   | 2.35          | 6.12  | 9.90   | 13.37 |
| Mid      | -2.54 | -1.99  | -1.51         | -0.49 | 1.69   | 3.73  |
| Small    | -3.22 | -1.84  | -0.50         | -1.19 | -0.46  | 0.23  |

\*S&P Indices

### Fixed Income Style



| 1 Month* |         |       | Year to Date* |         |      |      |
|----------|---------|-------|---------------|---------|------|------|
| Short    | Interm. | Long  | Short         | Interm. | Long |      |
| Govt     | 0.20    | 0.07  | -2.32         | 1.61    | 2.00 | 2.10 |
| Corp     | 0.15    | -1.18 | -2.77         | 1.51    | 2.51 | 1.67 |
| HY       | 0.34    | -0.30 | -2.96         | 3.82    | 3.77 | 2.00 |

\*Bloomberg Indices.

### Economic Data

|                                     | Last Release | Year Ago |
|-------------------------------------|--------------|----------|
| <b>Inflation</b>                    |              |          |
| CPI Headline Inflation              | 4.9%         | 8.3%     |
| CPI Core Inflation                  | 5.5%         | 6.2%     |
| Personal Consumption Exp (PCE) Core | 4.6%         | 5.4%     |

|  | Last Release | Year Ago |
|--|--------------|----------|
| <b>Jobs</b>                            |              |          |
| Unemployment Rate (U3)                 | 3.4%         | 3.6%     |
| Broader Unemployment Rate (U6)         | 6.6%         | 7.0%     |
| JOLT Survey (in millions)              | 9.59         | 12.03    |
| Jobless Claims (000's)                 | 242          | 222      |
| Change in Non-Farm Payroll (000's)     | 253          | 254      |
| Average Hourly Earnings (Y/Y % Change) | 4.4%         | 5.8%     |

|                                  | Last Release | Year Ago |
|----------------------------------|--------------|----------|
| <b>Consumer &amp; Spending</b>   |              |          |
| Consumer Confidence (Conf Board) | 101.3        | 108.6    |
| Consumer Spending (\$ Bil)       | 18,104       | 17,054   |
| Consumer Credit (\$ Bil)         | 4,851        | 4,522    |
| Retail Sales (\$ Bil)            | 686          | 675      |

|                               | Last Release | Year Ago |
|-------------------------------|--------------|----------|
| <b>Housing</b>                |              |          |
| Housing Starts (000's)        | 1,401        | 1,803    |
| Case-Shiller Home Price Index | 293.17       | 287.29   |

|                                      | Last Release | Year Ago |
|--------------------------------------|--------------|----------|
| <b>U.S. Productivity</b>             |              |          |
| Real Gross Domestic Product (\$ Bil) | 20,236       | 19,924   |
| Quarter over Quarter Change          | 1.1%         | -1.6%    |
| Year Over Year Change                | 1.6%         | 3.7%     |
| ISM Manufacturing                    | 47.10        | 55.90    |
| Capacity Utilization                 | 79.70        | 80.71    |
| Markit US Composite PMI              | 53.40        | 56.00    |

|                             | Last Release | Year Ago |
|-----------------------------|--------------|----------|
| <b>U.S. General</b>         |              |          |
| Leading Economic Indicators | 107.5        | 116.9    |
| Trade Weighted Dollar Index | 119.6        | 121.2    |
| EUR / USD                   | 1.08         | 1.06     |
| JPY / USD                   | 137.98       | 127.79   |
| CAD / USD                   | 0.74         | 0.78     |
| AUD / USD                   | 0.67         | 0.70     |

### S&P 500 Sector Returns

|                        | 1 Month | YTD    |
|------------------------|---------|--------|
| Communication Services | 8.53%   | 31.39% |
| Information Technology | 5.95%   | 28.02% |
| Consumer Discretionary | 2.84%   | 18.40% |
| Consumer Staples       | -0.03%  | 2.38%  |
| Industrials            | -1.24%  | 2.01%  |
| Materials              | -3.51%  | 1.67%  |
| Real Estate            | -3.64%  | -1.28% |
| Health Care            | -1.97%  | -2.98% |
| Financials             | -2.57%  | -4.27% |
| Utilities              | -4.86%  | -5.57% |
| Energy                 | -7.55%  | -7.92% |

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