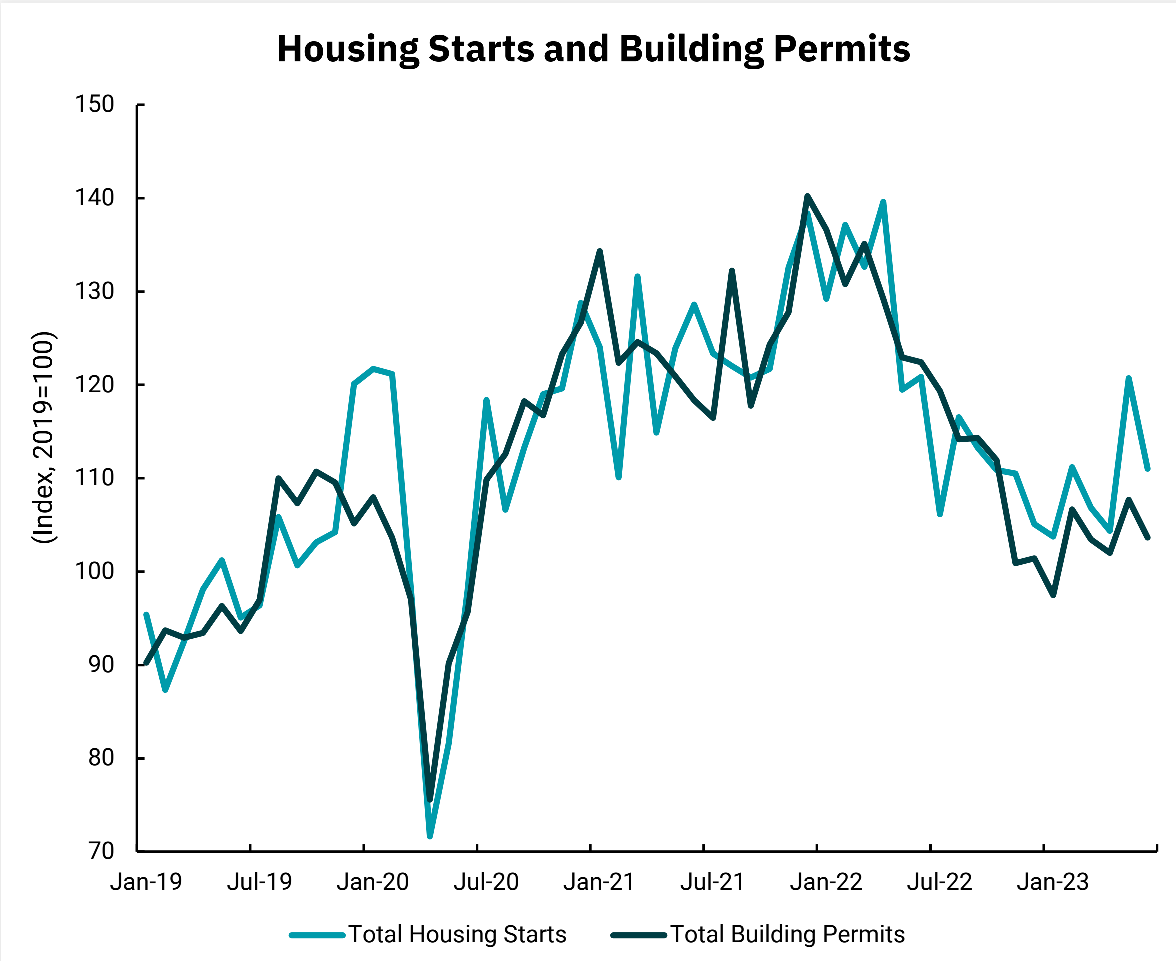
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Jul. 21, 2023)



The resilience of the U.S. economy has been impressive. Despite the Federal Reserve having raised rates by 5% over the last 14 months and another 0.25% hike anticipated at their July meeting, economic growth remains positive.

Some areas of the economy are seeing the impact of rising rates. Housing, in particular, is historically one of the more interest rate-sensitive sectors of the economy. Not surprising then to see housing starts and permits decline, as 30-year fixed mortgage rates went from near 3% to now near 7%. Yet, in the last few months, an interesting development has begun. While we all know about the performance of large-cap growth company stocks year-to-date, homebuilder stocks have also been one of the best-performing sub-sectors of the S&P 500.

This performance might seem counterintuitive. Lower starts and permits should mean lower sales, and higher rates were thought to be a harbinger of a broad decline in housing prices—both headwinds for homebuilder companies. However, a couple of trends have converged to lead new home builders to see improved financial performance.

The first is that the supply of homes for sale remains very limited by historical standards. Since the financial crisis of 2008-2009, there has been a structural under-investment in housing across the country. The longer-term effect has been a chronic under-supply of new housing, compared to household formation and population growth. So, while higher rates have reduced home demand by increasing mortgage costs, the remaining pool of demand still outstrips the available supply of homes. This still-elevated demand has meant home prices, with some specific regional exceptions, have fallen less than anticipated.

The other factor reducing supply is based on the huge number of homeowners who bought and/or refinanced their mortgages during the pandemic when mortgage rates fell to multi-generational lows. Homeowners who now enjoy these “below-market” rates loathe to have to sell and move, as this will almost certainly increase monthly housing costs.

The net result is that new home construction has become the primary source of homes, leading to a solid environment for homebuilder stocks. A large supply of multi-family units is coming into the market over the next few months, so rents may continue to get some relief. Still, home ownership remains a competitive environment for buyers.

Source: Renaissance Macro Research

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Commentary (Jul. 21, 2023)

Domestic Equities

- Last week, 60 companies totaling 11% of the S&P 500 Index reported earnings. Goldman Sachs missed earnings expectations, with quarterly profit down 58%. This contrasts the results of other banks that are beating expectations, such as Bank of America and Morgan Stanley. Investor sentiment for the industry overall is improving, sending prices higher.
- While Tesla beat analysts' earnings expectations, the stock slid in the back half of the week after CEO Elon Musk hinted at further price reductions and lacked clarity on initiatives. The Nasdaq lagged the S&P 500 for the week.
- The Nasdaq 100 Index is conducting a "special rebalance" on July 24. The rebalance will redistribute the weights of the top five constituents to 38.5%. Nasdaq typically implements these specific adjustments annually in December but can conduct a special rebalance when the integrity of the index is compromised.

Bonds

- U.S. Treasury yields climbed slightly higher this week following lower-than-expected unemployment claims. Yields increased broadly across the front-end of the curve, while the 20- and 30-year yields finished slightly lower.
- Across corporate credit, investment-grade bonds outperformed high yield, with AAA-rated credits posting the strongest returns.
- In international markets, the yield on Italian and Spanish government bonds fell across the curve as talk from the European Central Bank (ECB) cast doubt on the governing body raising rates much more. The news sent the spread between the Italian and German 10-year yields, an indicator of risk appetite for the region, to one of the narrowest levels since early 2022.
- Short-term inflation expectations continued to move lower, with the 1-year breakeven inflation rate falling to its lowest level since 2020.

International Equities

- Global stocks were mixed this week as investors digested corporate earnings results and the encouraging data on inflation. The focus now is shifting to the upcoming policy meetings of key central banks over the next week.
- Foreign developed markets struggled to find direction this week with weakness seen across many European and Pacific markets. U.K. stocks rallied after the country's inflation rate dropped to the lowest level in 15 months, fueling hopes among investors that inflation pressures could finally be dissipating.
- Following last week's strong gains, emerging market stocks faltered this week, led by weakness across Asian markets. China's second quarter GDP grew 6.3% from a year ago, which was lower than expected, causing markets to tumble. The slowdown in economic momentum is putting pressure on Chinese policy makers to inject more economic stimulus into its economy.

Economics

- The Census Bureau's retail sales report for June indicated sales increased 0.2%, totaling $690 billion in the month, and the May report was revised upward to 0.5% from an initial estimate of 0.3%. Over the prior 12-months, sales are up 1.5% overall, although gasoline stations have seen a decline of 23% from June 2022 due to falling gasoline prices.
- Additionally, the Census Bureau reported housing starts declined 8.0% in June at a seasonally adjusted annual rate.
- The Federal Reserve's report on industrial production and capacity indicated production fell 0.5% and capacity utilization declined to 78.9% in June.
- Initial claims for unemployment insurance totaled 228,000 for the week ending July 15, a decline of 9,000 from the prior week.
- Consumer spending and personal income will be released on Friday.

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Weekly Market Update

For Week Ending July 21, 2023

Markets

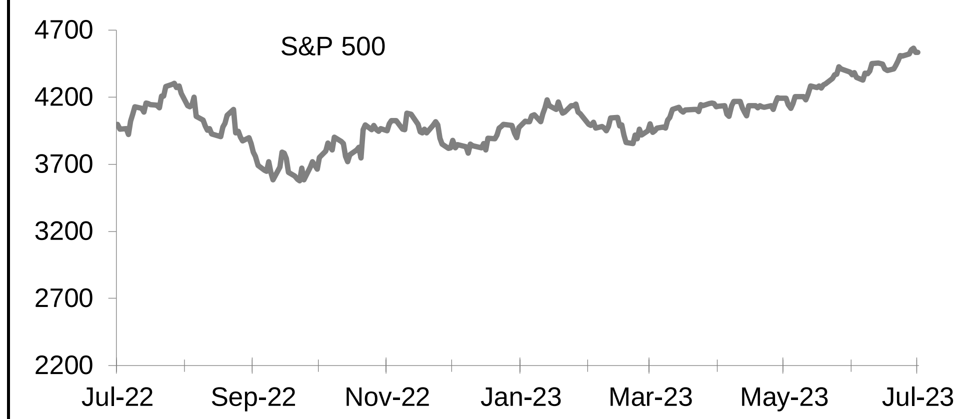
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	35,227.69	2.1%	7.5%	12.4%
S&P 500 Index	4,536.34	0.7%	19.2%	15.4%
NASDAQ	14,032.81	-0.6%	34.7%	17.4%
S&P 400 Midcap Index	2,705.82	1.2%	12.4%	13.9%
S&P 600 Smallcap Index	1,256.75	1.6%	9.6%	6.9%
MSCI EAFE	7,509.17	-0.6%	14.1%	19.0%
MSCI Emerging Markets	524.66	-1.3%	7.9%	5.4%
Bloomberg US Agg	2,095.90	0.0%	2.3%	-1.7%
Bloomberg Municipal 5 Yr	476.76	0.3%	1.7%	0.9%
Bloomberg US Corporate	3,074.13	0.2%	3.6%	0.1%
Bloomberg Glb Agg ex US Hdg	541.61	0.4%	3.9%	0.8%
Bloomberg High Yield	2,328.81	0.1%	6.5%	6.2%
MSCI US REIT Index	2,089.70	0.9%	9.1%	-0.4%
Bloomberg Commodity Index	238.02	1.6%	-3.2%	-4.3%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.25%	5.25%	4.50%	1.75%
3-Month Treasury	5.40%	5.35%	4.34%	2.41%
1-Year Treasury	5.28%	5.27%	4.69%	3.06%
2-Year Treasury	4.84%	4.77%	4.43%	3.09%
5-Year Treasury	4.09%	4.05%	4.00%	2.98%
7-Year Treasury	3.97%	3.94%	3.97%	2.96%
10-Year Treasury	3.83%	3.83%	3.87%	2.87%
30-Year Treasury	3.90%	3.93%	3.96%	3.04%
Consumer Rates				
30-Year Mortgage	7.19%	7.18%	6.66%	5.83%
Prime Rate	9.00%	9.00%	8.25%	5.50%
SOFR	5.05%	5.05%	4.77%	1.53%
Commodities				
Gold	1,961.94	1,955.21	1,824.02	1,718.81
Crude Oil (WTI)	77.07	75.32	80.26	81.78
Gasoline	3.59	3.57	3.21	4.41
Natural Gas	2.71	2.54	4.48	4.95
Copper	3.82	3.93	3.81	3.32

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	19.21	19.72	4.58	2.04
S&P 500	20.86	20.31	4.38	1.54
S&P 500 Value	18.35	18.62	2.93	1.94
S&P 500 Growth	23.60	22.03	7.60	1.20
NASDAQ	30.41	36.67	5.73	0.82
S&P Midcap 400	16.03	14.03	2.33	1.93
S&P Smallcap 600	16.09	13.64	1.81	1.63
MSCI EAFE	13.48	13.62	1.67	3.39
MSCI Emerging Markets	13.43	12.68	1.57	2.94

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	4.60	4.01	3.51
Mid	5.73	5.89	6.04
Small	5.40	5.05	4.70

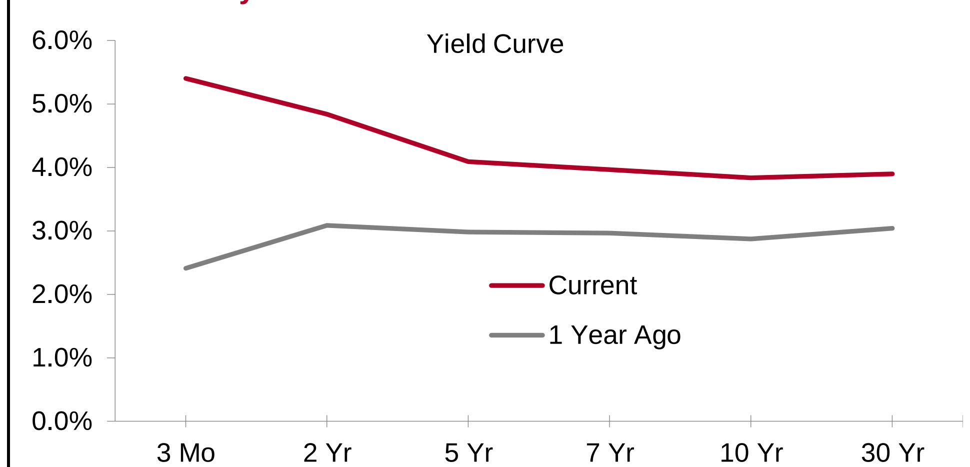
Year to Date*

	Value	Core	Growth
Large	15.11	19.22	23.00
Mid	10.50	12.36	14.07
Small	8.90	9.62	10.26

> 10% · 0% - 10% · <0%

*S&P Indices

Fixed Income Style



1 Month*

	Short	Interm.	Long
Govt	0.11	-0.14	-1.39
Corp	0.37	0.36	0.17
HY	1.26	1.49	1.59

Year to Date*

	Short	Interm.	Long
Govt	1.33	1.43	3.01
Corp	1.94	3.88	5.05
HY	6.26	6.56	5.88

> 10% · 0% - 10% · <0%

*Bloomberg Indices.

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.0%	9.1%
CPI Core Inflation	4.8%	5.9%
Personal Consumption Exp (PCE) Core	4.6%	4.9%
Jobs		
Unemployment Rate (U3)	3.6%	3.6%
Broader Unemployment Rate (U6)	6.9%	6.7%
JOLT Survey (in millions)	9.82	11.44
Jobless Claims (000's)	228	213
Change in Non-Farm Payroll (000's)	209	370
Average Hourly Earnings (Y/Y % Change)	4.4%	5.4%
Consumer & Spending		
Consumer Confidence (Conf Board)	109.7	98.4
Consumer Spending ($ Bil)	18,266	17,231
Consumer Credit ($ Bil)	4,865	4,579
Retail Sales ($ Bil)	689	679
Housing		
Housing Starts (000's)	1,434	1,561
Case-Shiller Home Price Index	301.05	301.77
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	20,283	19,924
Quarter over Quarter Change	2.0%	-1.6%
Year Over Year Change	1.8%	3.7%
ISM Manufacturing	46.00	53.10
Capacity Utilization	78.90	80.47
Markit US Composite PMI	53.20	52.30
U.S. General		
Leading Economic Indicators	106.1	115.1
Trade Weighted Dollar Index	117.6	123.9
EUR / USD	1.11	1.02
JPY / USD	141.73	137.36
CAD / USD	0.76	0.78
AUD / USD	0.67	0.69

S&P 500 Sector Returns

	1 Month	YTD
Information Technology	2.64%	44.67%
Communication Services	3.36%	40.64%
Consumer Discretionary	6.04%	37.03%
Industrials	4.80%	11.47%
Materials	3.48%	8.22%
Real Estate	4.31%	6.79%
Consumer Staples	1.40%	1.41%
Financials	3.57%	1.06%
Health Care	1.61%	-2.27%
Utilities	1.79%	-3.68%
Energy	2.09%	-5.57%

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