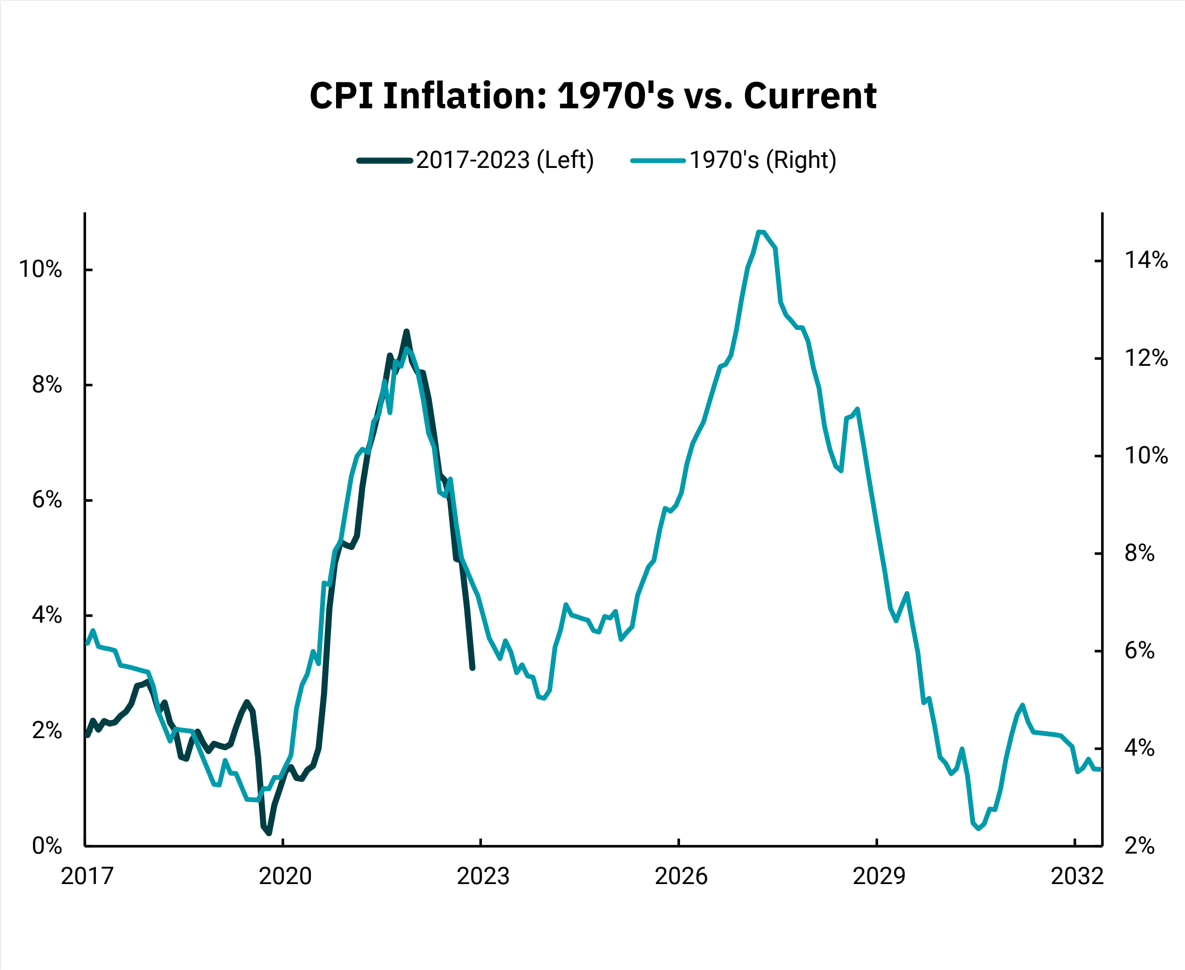
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Jul. 28, 2023)



"Inflation is declining rapidly, so the Fed will be lowering rates soon." Stock market bulls have held out this opinion, but, in the words of legendary college football analyst Lee Corso, "Not so fast, my friend."

The Federal Reserve is filled with legions of very smart people with impressive academic credentials. They build some of the most complex econometric models as a tool to help provide a more accurate forecast of economic activity. If only their track record were a bit better—but they're not unique in that regard. For most of us, it seems our hindsight is better than our foresight.

Paying attention to history is also important to the Fed. Monetary policy is an ever-evolving practice, particularly as interest rates were zero-bound for years and the Fed's balance sheet grew to levels never before seen. It might be that the future will be different from the past, but one ignores the past often at their own peril.

With that historical perspective in mind, this week's chart overlays our recent bout of inflation with a previous bout in the 1970s. We know Fed Chair Powell is also paying attention to 1970s-era inflation, as he has mentioned the Fed's reaction during this period as a cautionary tale about easing policy too soon. It is said the past does not repeat itself, but there are some serious parallels within this chart. The risk of current inflation moving forward in a similar path as it did in the 1970s surely keeps Fed Chair Powell on edge.

In the 1970s, as inflation was falling rapidly, the Fed may have eased monetary policy too soon, which allowed inflation to resurge and reach even higher levels. Then-Fed Chair Paul Volker was forced to take interest rates to 20% and trigger a deep recession where unemployment hit 10%. Only then was the Fed able to finally slay the inflation dragon.

Jay Powell does not want to have to do what Paul Volker did. The political pressure on the Fed and the damage to the economy today would be immense. It is also noteworthy to consider this chart spans over a decade—a period that can seem relatively short when looking back but seems like an eternity when thinking forward. Expect this Fed to preach patience and offer caution as we think about lowering rates and easing monetary policy. Longer-term inflation expectations will be a key input, but this is one historical economic period we do not want to revisit.

Source: Strategas

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Commentary (Jul. 28, 2023)

Domestic Equities

- The S&P 500 gained around 1% for the week, largely driven by the communication services sector.
- 163 companies reported earnings this week, totaling 39% of the market cap of the S&P 500. Meta beat earnings and reported its highest quarterly sales growth in several years. Alphabet reported better-than-expected earnings and an executive change. Both companies forecasted increased expenditures to build out artificial intelligence capabilities. Both stocks jumped in response.

Bonds

- U.S. Treasury yields were higher for the week following the release of better-than-expected U.S. GDP data and central bank policy changes from the Federal Reserve, European Central Bank and Bank of Japan.
- As widely expected, the Federal Reserve raised the Fed Funds target by 0.25% to 5.25%-5.50%. At the post-FOMC press conference, Chair Powell mentioned that the central bank's economists are no longer expecting a recession this year but provided no clear guidance regarding the committee's preference for hiking at their next meeting in September.
- In international markets, the European Central Bank hiked its main deposit rate by 0.25% to 3.75%, which was widely in line with market expectations. The Bank of Japan also surprised markets by adjusting its Yield Curve Control policy by increasing the ceiling on its target band for the 10-year government bond from 0.5% to 1.0%.

International Equities

- Global investors navigated a busy week of corporate earnings and central bank meetings, paying close attention to any indications on the path of future interest rate hikes.
- Foreign developed markets performed well this week. Following the European Central Bank's 0.25% hike, European stocks finished higher as investors cheered the prospect that the central bank might pause its interest rates hikes as soon as September. Early Friday, the Bank of Japan loosened its yield curve control, helping allow interest rates to become aligned with increasing inflation and economic growth.
- Emerging markets rallied following last week's losses, with broad gains seen across most regions and markets. Chinese stocks rebounded as government officials pledged support for private companies and announced new measures to boost consumption to boost its economy.

Economics

- The Bureau of Economic Analysis (BEA) reported second-quarter GDP rose 2.4% annualized, up 0.4% from the first quarter GDP of 2.0%.
- Additionally, the BEA indicated personal income rose 0.3% in June, mostly due to rising wages. Consumer spending rose in June by 0.5%, while the savings rate was higher by 4.3%, down slightly from the May release. Finally, the BEA reported the Personal Consumption Expenditures (PCE) price index, the Fed's preferred measure of inflation, increased 0.2% in June, which was in line with the core PCE price index (excluding food and energy).
- The Department of Labor reported weekly initial claims for unemployment insurance at 211,000, slightly below the four-week moving average of 234,000. Continuing claims decreased to 1.69 million from the previous week's level of 1.75 million.

Weekly Market Update

For Week Ending July 28, 2023

Markets

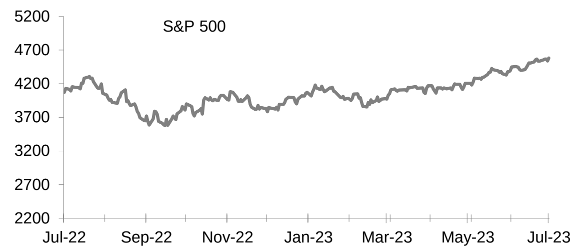
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	35,459.29	0.7%	8.2%	11.4%
S&P 500 Index	4,582.23	1.0%	20.5%	14.4%
NASDAQ	14,316.66	2.0%	37.4%	18.8%
S&P 400 Midcap Index	2,716.88	0.4%	12.8%	11.4%
S&P 600 Smallcap Index	1,271.09	1.2%	10.9%	5.2%
MSCI EAFE	7,566.47	0.5%	14.9%	19.6%
MSCI Emerging Markets	539.61	2.9%	11.0%	7.6%
Bloomberg US Agg	2,087.52	-0.4%	1.9%	-3.4%
Bloomberg Municipal 5 Yr	475.83	-0.2%	1.5%	0.0%
Bloomberg US Corporate	3,066.91	-0.2%	3.3%	-1.3%
Bloomberg Glb Agg ex US Hdg	541.04	-0.1%	3.8%	-0.8%
Bloomberg High Yield	2,330.58	0.1%	6.6%	5.0%
MSCI US REIT Index	2,050.24	-1.9%	7.1%	-7.0%
Bloomberg Commodity Index	240.58	1.1%	-2.2%	-6.8%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.25%	4.50%	2.50%
3-Month Treasury	5.41%	5.40%	4.34%	2.33%
1-Year Treasury	5.36%	5.28%	4.69%	2.88%
2-Year Treasury	4.87%	4.84%	4.43%	2.86%
5-Year Treasury	4.18%	4.09%	4.00%	2.70%
7-Year Treasury	4.08%	3.97%	3.97%	2.70%
10-Year Treasury	3.95%	3.83%	3.87%	2.68%
30-Year Treasury	4.01%	3.90%	3.96%	3.02%
Consumer Rates				
30-Year Mortgage	7.27%	7.19%	6.66%	5.83%
Prime Rate	9.25%	9.00%	8.25%	6.25%
SOFR	5.30%	5.05%	4.77%	2.28%
Commodities				
Gold	1,959.49	1,961.94	1,824.02	1,755.84
Crude Oil (WTI)	80.58	77.07	80.26	83.84
Gasoline	3.75	3.59	3.21	4.26
Natural Gas	2.64	2.71	4.48	4.91
Copper	3.93	3.82	3.81	3.51

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	19.43	19.86	4.61	2.01
S&P 500	21.06	20.52	4.43	1.52
S&P 500 Value	18.47	18.57	2.93	1.94
S&P 500 Growth	23.89	22.09	7.62	1.19
NASDAQ	30.95	37.14	5.86	0.80
S&P Midcap 400	16.08	14.09	2.34	1.92
S&P Smallcap 600	16.30	13.67	1.81	1.62
MSCI EAFE	13.66	13.68	1.68	3.34
MSCI Emerging Markets	13.82	12.87	1.60	2.88

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	4.92	4.81	4.71
Mid	6.95	5.65	5.56
Small	6.95	6.48	6.02

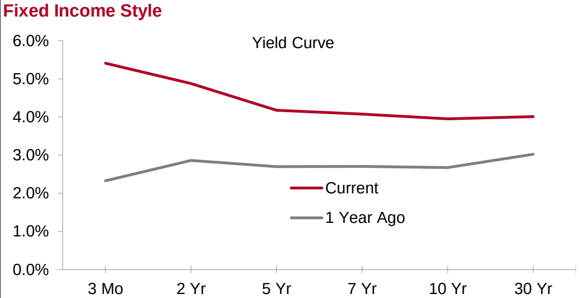
> 10%
0% - 10%
<0%

*S&P Indices

Year to Date*

	Value	Core	Growth
Large	15.79	20.46	24.74
Mid	11.29	12.85	14.26
Small	10.42	10.88	11.26

Fixed Income Style



1 Month*

	Short	Interm.	Long
Govt	0.06	-0.45	-3.15
Corp	0.40	-0.04	-0.53
HY	1.19	1.44	1.13

> 10%
0% - 10%
<0%

*Bloomberg Indices.

Year to Date*

	Short	Interm.	Long
Govt	1.28	1.14	1.19
Corp	2.05	3.66	4.37
HY	6.44	6.64	5.91

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	4.1%	5.0%
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)	221	211
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)	117.0	95.3
Consumer Spending ($ Bil)	18,383	17,437
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	305.15	306.55
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	20,404	19,895
Quarter over Quarter Change	2.4%	-0.6%
Year Over Year Change	2.6%	1.8%
ISM Manufacturing	46.00	53.10
Capacity Utilization	78.90	80.47
Markit US Composite PMI	52.00	47.70
U.S. General		
Leading Economic Indicators	106.1	115.1
Trade Weighted Dollar Index	118.5	122.8
EUR / USD	1.10	1.02
JPY / USD	141.16	134.27
CAD / USD	0.76	0.78
AUD / USD	0.67	0.70

S&P 500 Sector Returns

	1 Month	YTD
Information Technology	4.54%	46.41%
Communication Services	7.36%	45.75%
Consumer Discretionary	3.33%	35.56%
Industrials	4.56%	13.12%
Materials	5.22%	10.84%
Real Estate	2.06%	4.34%
Consumer Staples	3.44%	3.93%
Financials	7.12%	3.83%
Health Care	3.61%	0.32%
Utilities	7.09%	-0.55%
Energy	3.61%	-3.42%

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BOK FINANCIAL

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