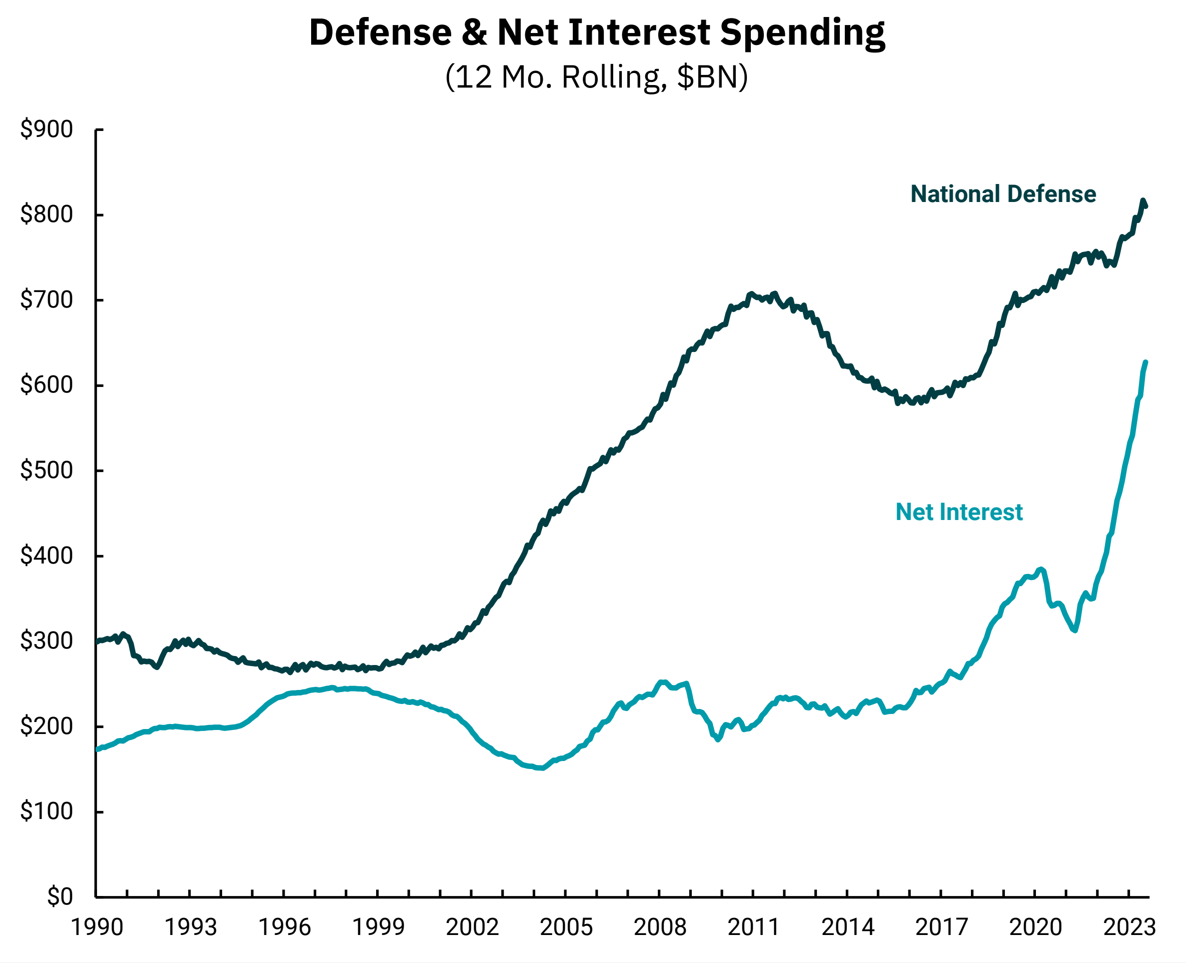
INVESTMENT MANAGEMENT

Weekly market update

BOK FINANCIAL

Chart of the week (Aug. 18, 2023)



Source: Strategas

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As we consider the path of spending at the federal level, there are many factors to consider. Chief amongst them is that the majority of federal spending is mandatory. Some 60% of the federal budget does not go through the annual appropriations process, where Congress votes to provide monies to various programs. This part of the budget includes social security, Medicare, Medicaid, veterans benefits and other forms of income security. With much of this part of the budget tied to inflation, we have seen annual increases over time and particularly recently, as social security recipients received an 8.7% cost of living adjustment (COLA) for 2023. Inflation is lower now than last year, so inflation-driven increases should slow, but there will still be increases in spending.

Of the roughly 40% of the budget subject to the annual appropriations process, the two biggest line items are defense spending and net interest on federal debt. As our chart shows, there has been variability in these two items over the years, but recently both have been increasing. How defense spending goes from here is a matter of debate, although the Fiscal Responsibility Act of 2023, which suspended the debt ceiling and avoided a default on our debt, guaranteed small defense spending increases between now and January of 2025, when the act ends.

The direction of interest expense over the foreseeable future is a bit more certain: higher. The combination of an increasing amount of outstanding debt and higher interest rates in response to inflation has resulted in a very fast increase in net interest expense. Additionally, over 50% of our outstanding debt will mature over the next three years, resulting in a relatively quick repricing higher of outstanding debt. At present, a significant part of new Treasury debt issuance is in the form of short-term Treasury bills. Financing our spending in this way during the pandemic meant new debt could be added with very low cost as the Federal Reserve kept short-term interest rates pinned near 0%. The now inverted yield curve means this financing is more expensive than longer-term bonds, which is resulting in a very fast increase in interest expense.

The gap between defense spending and interest costs is narrowing rapidly and could soon close. Higher interest expense is also eating a larger portion of tax revenues, where we now spend about 14% of tax revenue to pay interest. All of this is to say, finding a way to reduce spending is hard, and higher inflation makes the job even more difficult.

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Commentary (Aug. 18, 2023)

Domestic Equities

- U.S. stocks fell for the third week in a row and are now down about 5% for August. Despite strong second-quarter earnings, the market rally appears to be stalling.
- Although about 80% of companies reported better-than-expected earnings, investors did not reward positive surprises as much as they punished earnings misses. Earnings were strong, but profits are declining and stocks look expensive, with P/E ratios recently reaching close to 2021 levels. Additionally, rising yields make stable bond assets look more attractive than stocks.
- Consumers have been resilient so far in the face of rising rates, but investors are becoming concerned that discretionary spending will soon become strained. Mortgage rates are at 20-year highs, student loan payments are set to resume, and credit card balances are at record highs.

Bonds

- U.S. Treasury yields continued to move higher on better-than-expected U.S. economic data. The long-end of the curve led the market higher as traders increased bets that the Federal Reserve would keep rates higher for longer.
- Mortgage rates made new highs this week, with the national average for a 30-year fixed-rate mortgage breaking 7.6%. Real yields also made new highs this week, with the real yield on the 30-year U.S. Treasury exceeding 2.0%.
- In international markets, the People's Bank of China cut its 1-year policy rate by 0.15% in an effort to bolster the foundering Chinese economy. This was accompanied by the central bank raising its daily reference rate for the yuan after the currency made a new low against the U.S. dollar. Additionally, Argentina devalued its currency by 18%, and the country's main policy rate was hiked 21% to 118%. Russia also hiked its main policy rate in an effort to stop the plunge in the ruble.

International Equities

- Global investors faced renewed volatility this week as new concerns emerged over China's real estate sector. In contrast, global government bond yields climbed higher as resilient economic data implies that central banks may need to tighten rates further.
- Nearly every foreign developed market fell this week, with the largest declines seen across most European markets. Japan's economy expanded at an annualized pace of 6% in the second quarter, strongly exceeding economists' forecasts of 3% growth.
- Emerging markets fell for the third week as most markets across Asia and Latin America declined. China, the largest country in the emerging markets index, continues to falter as the country's latest attempts at providing small-scale stimulus failed to tame negative sentiment after the release of disappointing economic data.

Economics

- The Census Bureau reported retail sales rose 0.7% in July, totaling $696 billion, with most of the increase from food and beverage stores. This is the fourth consecutive monthly increase and the highest total in the series. Over the prior 12 months, retail sales have risen 3.2%.
- The Bureau of Labor Statistics U.S. Import and Export Price Indexes summary indicated import prices rose 0.4%, and export prices rose 0.7% in July, reversing a 0.1 and 0.7% decline from the prior month, respectively.
- The Federal Reserve reported industrial production increased 1% in July, reversing two consecutive monthly declines. Capacity utilization increased to 79.3%.
- Initial claims for unemployment insurance for the week ending August 12 were 239,000, a decline of 11,000 from the prior week.

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Weekly Market Update

For Week Ending August 18, 2023

Markets

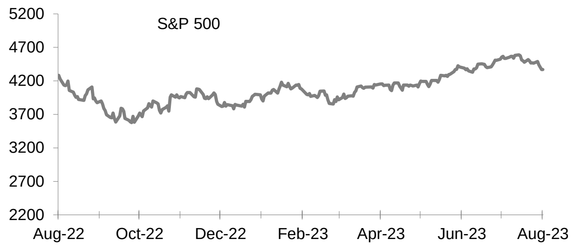
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	34,500.66	-2.1%	5.5%	3.7%
S&P 500 Index	4,369.71	-2.1%	15.0%	3.7%
NASDAQ	13,290.78	-2.6%	27.7%	3.4%
S&P 400 Midcap Index	2,578.86	-3.0%	7.2%	0.2%
S&P 600 Smallcap Index	1,201.38	-3.3%	4.9%	-5.3%
MSCI EAFE	7,113.82	-3.3%	8.1%	8.7%
MSCI Emerging Markets	499.66	-3.3%	2.8%	-1.9%
Bloomberg US Agg	2,051.48	-0.5%	0.1%	-4.1%
Bloomberg Municipal 5 Yr	472.19	-0.3%	0.8%	0.2%
Bloomberg US Corporate	3,000.75	-0.7%	1.1%	-3.0%
Bloomberg Glb Agg ex US Hdg	537.78	-0.2%	3.1%	-0.9%
Bloomberg High Yield	2,310.41	-0.8%	5.7%	2.3%
MSCI US REIT Index	1,950.15	-3.2%	1.9%	-13.4%
Bloomberg Commodity Index	234.61	-1.2%	-4.6%	-10.2%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	4.50%	2.50%
3-Month Treasury	5.43%	5.42%	4.34%	2.62%
1-Year Treasury	5.34%	5.34%	4.69%	3.17%
2-Year Treasury	4.94%	4.89%	4.43%	3.20%
5-Year Treasury	4.39%	4.30%	4.00%	3.03%
7-Year Treasury	4.34%	4.25%	3.97%	2.97%
10-Year Treasury	4.25%	4.15%	3.87%	2.88%
30-Year Treasury	4.38%	4.26%	3.96%	3.14%
Consumer Rates				
30-Year Mortgage	7.55%	7.53%	6.66%	5.83%
Prime Rate	9.25%	9.25%	8.25%	6.25%
SOFR	5.30%	5.30%	4.77%	2.28%
Commodities				
Gold	1,889.31	1,913.76	1,824.02	1,758.61
Crude Oil (WTI)	81.25	83.19	80.26	82.89
Gasoline	3.87	3.85	3.21	3.92
Natural Gas	2.55	2.77	4.48	5.57
Copper	3.74	3.76	3.81	3.63

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.74	19.83	4.46	2.08
S&P 500	19.93	19.90	4.14	1.62
S&P 500 Value	17.51	17.72	2.77	2.03
S&P 500 Growth	22.57	22.24	7.22	1.23
NASDAQ	28.24	32.14	5.20	0.85
S&P Midcap 400	15.37	14.07	2.21	2.08
S&P Smallcap 600	15.51	13.30	1.71	1.71
MSCI EAFE	12.94	12.72	1.66	3.49
MSCI Emerging Markets	13.15	12.30	1.51	2.99

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	-3.88	-3.92	-3.95
Mid	-4.44	-4.93	-4.48
Small	-4.44	-4.77	-5.12

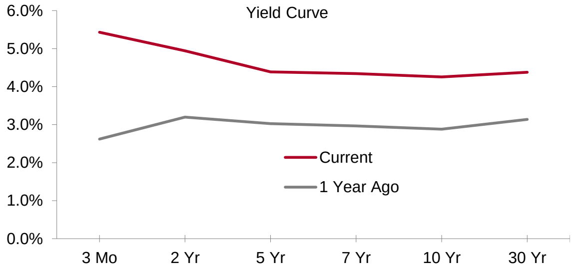
■ > 10%
■ 0% - 10%
■ <0%

Year to Date*

	Value	Core	Growth
Large	10.48	15.01	19.17
Mid	4.95	7.23	9.34
Small	4.27	4.94	5.52

*S&P Indices

Fixed Income Style



1 Month*

	Short	Interm.	Long
Govt	0.02	-0.96	-6.90
Corp	0.02	-2.44	-5.12
HY	0.34	-0.82	-2.08

■ > 10%
■ 0% - 10%
■ <0%

Year to Date*

	Short	Interm.	Long
Govt	1.45	0.69	-3.95
Corp	2.01	1.44	-0.38
HY	6.63	5.74	4.14

*Bloomberg Indices.

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.2%	8.5%
CPI Core Inflation	4.7%	5.9%
Personal Consumption Exp (PCE) Core	4.1%	5.0%
Jobs		
Unemployment Rate (U3)	3.5%	3.5%
Broader Unemployment Rate (U6)	6.7%	6.8%
JOLT Survey (in millions)	9.58	10.96
Jobless Claims (000's)	239	213
Change in Non-Farm Payroll (000's)	187	568
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)	4,997	4,726
Retail Sales ($ Bil)	696	675
Housing		
Housing Starts (000's)	1,452	1,371
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	46.40	52.70
Capacity Utilization	79.30	80.73
Markit US Composite PMI	52.00	47.70
U.S. General		
Leading Economic Indicators	105.8	114.4
Trade Weighted Dollar Index	120.2	120.7
EUR / USD	1.09	1.01
JPY / USD	145.39	135.89
CAD / USD	0.74	0.77
AUD / USD	0.64	0.69

S&P 500 Sector Returns

	1 Month	YTD
Communication Services	-1.48%	38.19%
Information Technology	-8.82%	35.35%
Consumer Discretionary	-6.80%	28.47%
Industrials	-3.10%	9.08%
Materials	-3.77%	5.03%
Energy	8.15%	3.00%
Financials	-2.94%	0.18%
Consumer Staples	-1.09%	-0.12%
Real Estate	-5.14%	-0.37%
Health Care	1.13%	-0.91%
Utilities	-3.21%	-8.58%

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