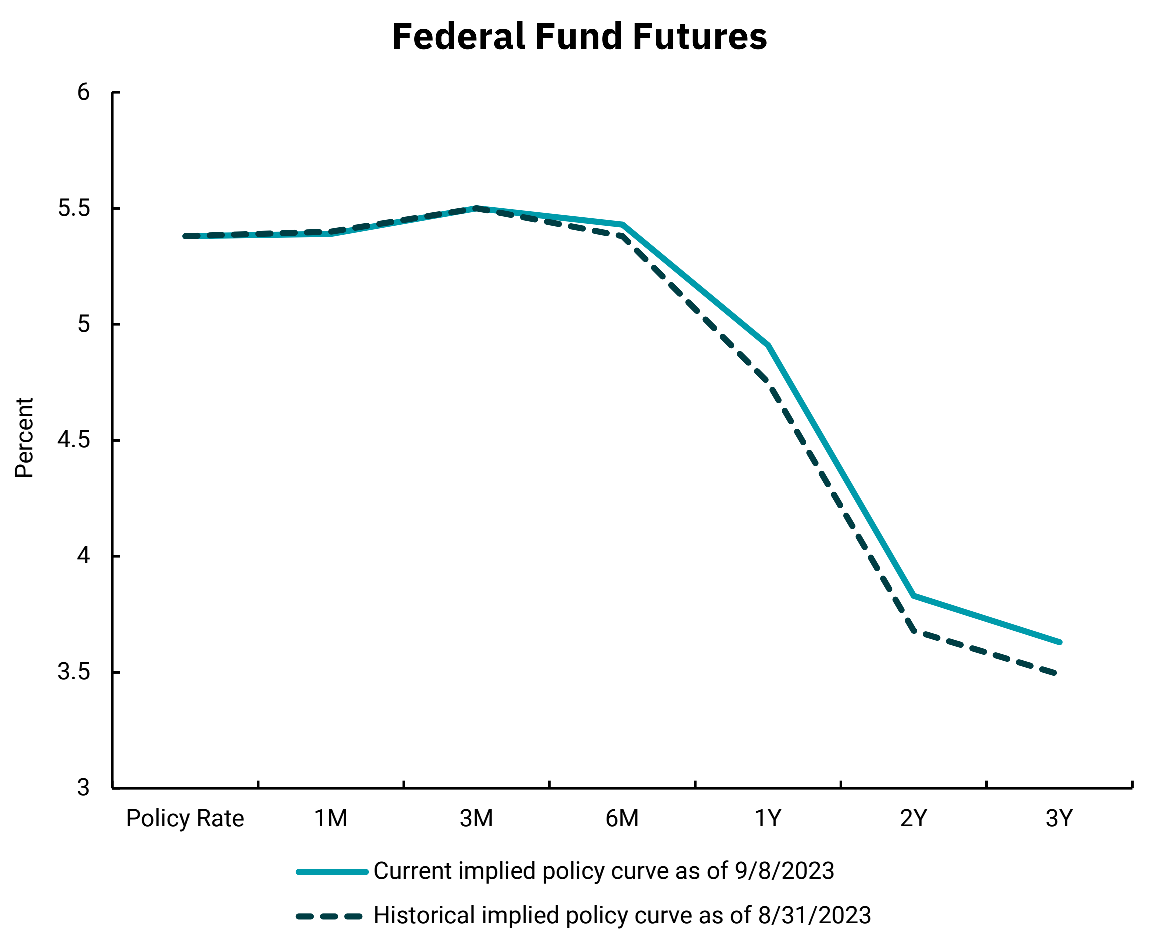
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Sep. 08, 2023)



Federal Fund futures are one way to get an idea of what the market expects from the Federal Reserve in future meetings. Only a few months ago, Fed Fund futures were showing a forecast of rate CUTS during the fourth quarter of 2023, based on the expectation an economic slowdown and a decline in inflation would lead to a reversal in monetary policy.

However, the U.S. economy's resilience is forcing a shift in expectations. As this week's chart shows, the outlook is now for potentially one more rate increase before year-end, a period of stability, and then gradual rate cuts one to two years out. As expectations have shifted, longer-term Treasury rates have moved higher, impacting consumer borrowing rates, like home mortgages.

The Fed is in an interesting quandary now. It is good news that inflation is falling, and the economy has, so far, avoided anything resembling a recession. Headline unemployment remains below 4%, consumer spending is expanding, and recent data on gross domestic product (GDP) indicates the overall economy could be accelerating. Yet this "good news" may also mean recent gains in inflation could slow. Higher economic activity keeps demand for labor high, and a rebound in energy prices could mean declines in headline inflation could begin to reverse.

Even though the Fed has raised rates by 500 basis points, or 5%, "real" interest rates remain relatively low by historical standards, meaning the Fed might not be as restrictive on policy as one might think. Put another way, the rapid and material increase in rates is muted a bit as we had "real" interest rates of -6% before the Fed began tightening policy rates.

Like many things, the pandemic's effects continue to alter a more "normal" economic path. Maybe we should not be surprised that unwinding the level of monetary and fiscal accommodation that we've seen is taking an unexpected path. After all, we responded to the pandemic with actions unlike any we have taken before. At present, the outlook is for the Fed to be about done raising rates, but we should acknowledge the risk that unexpectedly high rates remains a possibility.

Source: Bloomberg

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Commentary (Sep. 08, 2023)

Domestic Equities

- U.S. stocks declined this week, led by big tech and high-growth names.
- Fresh data out this week stirred worries that the Federal Reserve may need to keep lifting rates to cool the economy. Initial jobless claims have declined four weeks in a row. Fed Fund futures reflect a 40% chance of a rate hike in November, up from 29% a month ago.
- Apple shares fell about 5% this week on concerns over sales in China. A Wall Street Journal report noted that China's central government agencies have been ordered not to use iPhones at work. Additionally, a new phone from China-based Huawei is gaining popularity. Apple woes weighed on other Big Tech names as well.
- Disney's stock price has declined below its 2020 lows. Many issues are weighing on the company, including the Hollywood strike and concerns over sustained losses in its TV and streaming business.

Bonds

- U.S. Treasury yields were marginally higher for the week on mixed economic data and comments from a number of Federal Reserve speakers.
- Investment-grade corporate bonds were slightly negative for the week, with a surge in new issuance putting upward pressure on credit spreads.
- Foreign bonds trailed domestic bonds, with broad-based strength in the U.S. dollar driving weakness across both developed and emerging market debt.
- In international markets, Poland's central bank surprised markets by cutting its main policy rate by 0.75% to 6.00% on Wednesday due to weaker demand pressure across the economy. The Bank of Canada (BoC) also met Wednesday but decided to keep its key rate unchanged at 5%.

International Equities

- Global market sentiment slipped this week as investors assessed weaker economic data, higher government bond yields and a challenging interest rate environment as inflationary pressures linger.
- Stocks in foreign developed markets erased some of last week's gains as most major European markets fell. European equities have struggled due to the rise in oil prices and weak economic data from Germany, leading to concerns that the region could enter a period of weak economic growth coupled with persistently higher inflation.
- Emerging market stocks struggled to find traction this week as many markets in Latin America and Asia declined. Data showed China's exports and imports fell in August, as the pressures of sagging overseas demand and weaker consumer spending hurt businesses in the world's second-largest economy.

Economics

- The Census Bureau reported manufacturers' new orders declined 2.1% in July to $579 billion, the first monthly decline in four months.
- The Census Bureau/Bureau of Economic Analysis reported that in July U.S. exports increased 1.6% to $252 billion and imports increased 1.7% to $317 billion. The trade deficit was $65 billion, an increase of 2%.
- The Department of Labor reported initial claims for unemployment insurance were 216,000 for the week ending Sep. 2 and below the four-week moving average of 229,250. Continuing claims for the week ending Aug. 26 were 1,679,000, a decline of 40,000 from the prior week and below the four-week moving average of 1,701,500.
- The Consumer Price Index will be released on Wednesday. Retail sales and the Producer Price Index will be released on Thursday. The University of Michigan consumer confidence report will be released on Friday.

Weekly Market Update

For Week Ending September 08, 2023

Markets

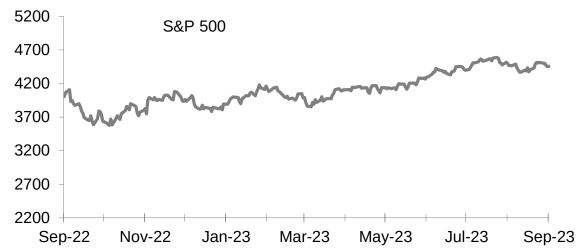
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	34,576.59	-0.7%	6.0%	11.2%
S&P 500 Index	4,457.49	-1.3%	17.4%	13.1%
NASDAQ	13,761.53	-1.9%	32.3%	17.0%
S&P 400 Midcap Index	2,574.53	-3.5%	7.1%	6.7%
S&P 600 Smallcap Index	1,185.50	-4.3%	3.6%	3.1%
MSCI EAFE	7,180.86	-1.4%	9.1%	18.4%
MSCI Emerging Markets	505.00	-1.2%	3.9%	4.4%
Bloomberg US Agg	2,060.85	-0.3%	0.6%	-1.1%
Bloomberg Municipal 5 Yr	472.17	-0.1%	0.7%	1.2%
Bloomberg US Corporate	3,024.71	-0.3%	1.9%	1.1%
Bloomberg Glb Agg ex US Hdg	540.08	-0.3%	3.6%	1.9%
Bloomberg High Yield	2,334.90	-0.3%	6.8%	6.4%
MSCI US REIT Index	1,976.34	-1.2%	3.2%	-6.8%
Bloomberg Commodity Index	239.49	-0.5%	-2.6%	-4.3%

	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	5.44%	5.41%	4.34%	3.00%
1-Year Treasury	5.39%	5.36%	4.69%	3.58%
2-Year Treasury	4.99%	4.88%	4.43%	3.50%
5-Year Treasury	4.40%	4.30%	4.00%	3.42%
7-Year Treasury	4.35%	4.26%	3.97%	3.40%
10-Year Treasury	4.26%	4.18%	3.87%	3.32%
30-Year Treasury	4.34%	4.29%	3.96%	3.48%
Consumer Rates				
30-Year Mortgage	7.56%	7.53%	6.66%	5.83%
Prime Rate	9.25%	9.25%	8.25%	6.25%
SOFR	5.30%	5.31%	4.77%	2.28%
Commodities				
Gold	1,919.08	1,940.06	1,824.02	1,708.46
Crude Oil (WTI)	87.51	85.55	80.26	76.08
Gasoline	3.82	3.82	3.21	3.74
Natural Gas	2.61	2.77	4.48	5.42
Copper	3.72	3.85	3.81	3.51

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.75	19.86	4.48	2.06
S&P 500	20.15	20.28	4.24	1.59
S&P 500 Value	17.60	17.93	2.80	2.08
S&P 500 Growth	22.92	22.77	7.43	1.20
NASDAQ	29.29	33.34	5.56	0.82
S&P Midcap 400	15.28	14.04	2.21	2.10
S&P Smallcap 600	15.19	13.18	1.69	1.87
MSCI EAFE	13.26	12.51	1.66	3.39
MSCI Emerging Markets	13.48	13.65	1.51	2.97

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	-2.11	-0.74	0.44
Mid	-6.90	-3.75	-2.89
Small	-6.90	-5.62	-4.37

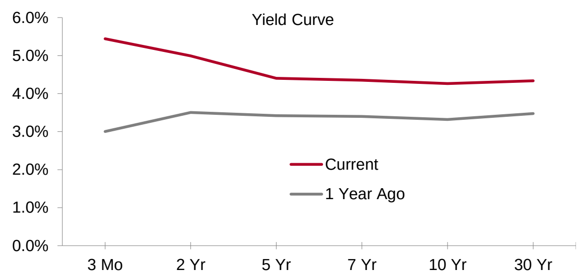
> 10%
0% - 10%
<0%

Year to Date*

	Value	Core	Growth
Large	11.91	17.43	22.49
Mid	4.56	7.14	9.53
Small	1.95	3.65	5.24

*S&P Indices

Fixed Income Style



1 Month*

	Short	Interm.	Long
Govt	-0.03	-0.62	-2.09
Corp	-0.06	-1.09	-0.96
HY	0.57	0.32	0.25

> 10%
0% - 10%
<0%

Year to Date*

	Short	Interm.	Long
Govt	1.60	0.83	-3.21
Corp	2.27	2.07	1.21
HY	7.31	6.84	5.96

*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	4.2%	4.7%
Jobs		
Unemployment Rate (U3)	3.8%	3.7%
Broader Unemployment Rate (U6)	7.1%	7.0%
JOLT Survey (in millions)	8.83	11.38
Jobless Claims (000's)	216	197
Change in Non-Farm Payroll (000's)	187	352
Average Hourly Earnings (Y/Y % Change)	4.3%	5.4%
Consumer & Spending		
Consumer Confidence (Conf Board)	106.1	103.6
Consumer Spending ($ Bil)	18,534	17,420
Consumer Credit ($ Bil)	4,985	4,751
Retail Sales ($ Bil)	696	675
Housing		
Housing Starts (000's)	1,452	1,371
Case-Shiller Home Price Index	308.25	308.32
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	20,387	19,895
Quarter over Quarter Change	2.1%	-0.6%
Year Over Year Change	2.5%	1.8%
ISM Manufacturing	47.60	52.90
Capacity Utilization	79.30	80.73
Markit US Composite PMI	50.20	44.60
U.S. General		
Leading Economic Indicators	105.8	114.4
Trade Weighted Dollar Index	121.2	124.3
EUR / USD	1.07	1.00
JPY / USD	147.83	144.11
CAD / USD	0.73	0.76
AUD / USD	0.64	0.68

S&P 500 Sector Returns

	1 Month	YTD
Communication Services	0.26%	44.32%
Information Technology	1.41%	41.60%
Consumer Discretionary	-1.65%	33.32%
Industrials	-3.14%	8.49%
Energy	5.62%	6.99%
Materials	-1.72%	6.34%
Financials	-2.17%	1.28%
Real Estate	-1.97%	0.83%
Consumer Staples	-3.66%	-1.58%
Health Care	-2.15%	-1.99%
Utilities	-1.67%	-8.95%

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BOK FINANCIAL

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