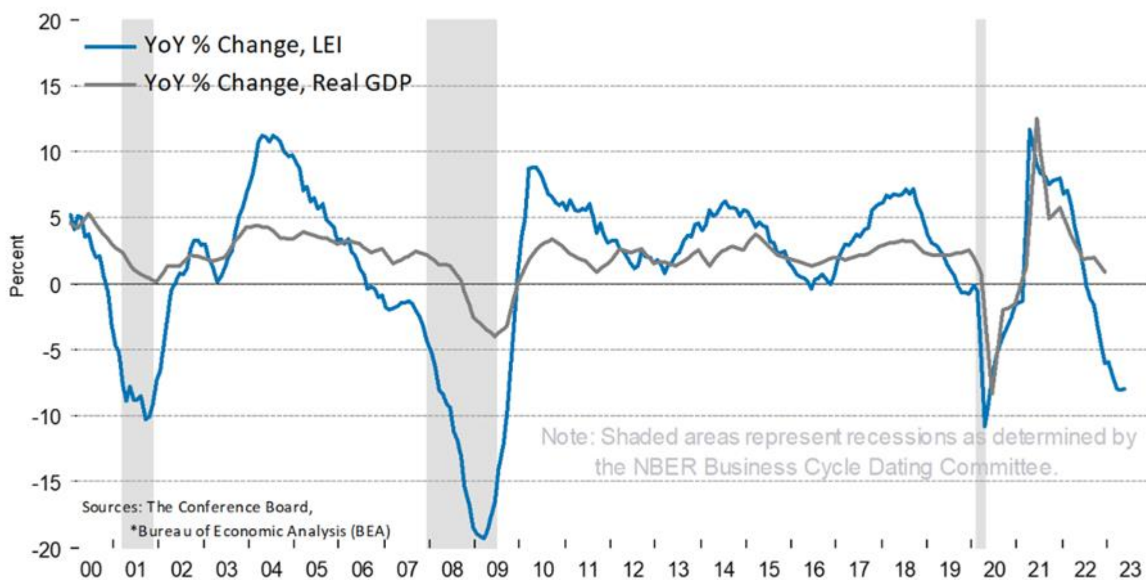
Summary

On a holiday-shortened week, economic data included the index of leading economic indicators continuing to show decline, while housing data came in stronger.

Equities fell back globally last week, along with higher interest rate expectations and further recession fears, following several weeks of technical strength. Bonds, however, were little change, along with minimal changes in U.S. yields. Commodities fell back with similar negative sentiment.

Economic Notes

(-) The Conference Board Index of **Leading Economic Indicators** declined -0.7% in May, continuing a stretch of 14 straight monthly declines. The May result was led by weaker inputs from consumer expectations, ISM new orders, the ongoing inverted yield spread, and weaker credit. The positive influences were stock prices and building permits. Over the past six months, the LEI is down -4.3%, which surpasses the -3.8% drop of the six month stretch before that (May to Nov. 2022). The Conference Board did raise their Q2 GDP estimate back to showing minor growth, but continues to expect a contraction from Q3-2023 through Q1-2024. This is reiterated by the negative 6-month growth rate, which has been lower than today's value only during the start of the three recessions since 2000 (2001, 2008, and 2020).



(0) **Existing home sales** in May rose by 0.2% to a seasonally-adjusted annualized rate of 4.30 mil. units, in contrast to the expected decline of -0.7%. Total home sales were down -20% on a trailing 12-month basis, which was a slight improvement from the April figure. While single-family sales declined slightly, sales of condos/co-ops rose by 5% on the month, with regional declines in the Midwest and Northeast offsetting gains in the West and South. The median sales price came in at $396,100, which was a year-over-year drop of -3%, and a similar drop from the peak prices last year. Mortgage rates remaining near 7% obviously affect affordability to the negative. As a byproduct, the low rates many homeowners are currently locked in to paying is creating a strong reluctance of current homeowners to sell—keeping inventory down from where it might otherwise be in the peak summer selling season. The key measure of this, months' supply, remains down at 3.0 for the month, about half that of normal single-family market levels.

(+) **Housing starts** in May sharply rose by 21.7% to a seasonally-adjusted annualized rate of 1.631 mil. units, exceeding expectations for a -0.1% decline, accompanied by downward revisions for the prior month. Gains were seen in single-family (19%) and multi-family (27%) for the month, with the latter rising to the highest starts level since the mid-1980's. Regional gains were led by the Midwest and South, while the Northeast experienced nearly a -20% decline. **Building permits** rose 5.2% for the month to 1.491 mil. seasonally-adjusted annualized units, well above the 0.6% increase expected. Both single-family and multi-family gained at similar rates, with the Northeast leading by region. Overall, housing starts are up 6% from last year, led by a 33% rise in multi-family, while permits are down -13%. The starts numbers don't point to weakness in the homebuilding sector, largely as the building work is needed to get enough inventory on board to satisfy demographic demand, as opposed to falling off a cliff as often occurs in conjunction with historical economic recessions. Multi-family building is running at a pace not seen since the early 1970's, with fears in some quarters about overheating.

(0) **Initial jobless claims** for the Jun. 17 ending week were unchanged at 264k, just above the 259k median forecast. Continuing claims for the Jun. 10 week declined by -13k to 1.759 mil., well below the 1.785 mil. level expected by consensus. Initial claims readings were focused on OH and MN, each of which had one-off issues that distorted the data to some extent. That aside, the national data was little changed.

Market Notes

Period ending 6/23/2023	1 Week %	YTD %
DJIA	-1.67	2.86
S&P 500	-1.37	14.19
NASDAQ	-1.43	29.47
Russell 2000	-2.86	4.18
MSCI-EAFE	-3.35	9.84
MSCI-EM	-3.60	4.93
Bloomberg U.S. Aggregate	0.14	2.36

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2022	4.42	4.41	3.99	3.88	3.97
6/16/2023	5.34	4.70	3.99	3.77	3.86
6/23/2023	5.41	4.71	3.99	3.74	3.82

U.S. stocks experienced the first negative week a month and a half, with Fed Chair Powell's semi-annual testimony to Congress ending up more hawkish than initially thought by markets. Specifically, he noted that most members of the FOMC agreed that raising rates 'somewhat further' by the end of the year would be appropriate to bring down persistent inflation. S&P's Global PMI measure also fell further into contraction, which again raised recession concerns.

By sector, health care was the only positive contributor last week, eking out a small gain; the largest laggards included energy, technology, and materials. Real estate also declined nearly -4% as markets digested higher interest rates for longer. In the tech sector, Canadian authorities have proceeded with plans requiring digital companies to pay domestic media firms for their content, which has caused some backlash and possible shutting down of some news availability on Facebook and others. A similar saw was passed in Australia a few years ago before a compromise was found. Whether this trend continues over to the U.S. remains to be determined, but continues to add some side pressure to these monopoly-like firms. Additionally, Tesla stock was downgraded by several analysts, which raised concerns over valuations and prospects in the segment.

Foreign stocks performed negatively as well, with the added headwind of a stronger dollar. Developed markets fared a bit better than emerging markets, although regional returns showed little difference. The Bank of England surprised markets by raising rates by 0.50%, as opposed to the expected 0.25%, based on continued

persistent inflation pressures. Norway raise rates by the same amount, while Switzerland moved a quarter-percent. This trend has continued to raise concerns over a central bank-induced recession globally. In emerging markets, Chinese stocks fell back by -7%, to lead markets on the downside, as weaker-than-expected economic data has been coupled with a lighter-than-expected stimulus response from the government so far.

Bonds were little changed for the most part, with corresponding little change in treasury yields. However, the 3m-10y spread saw further inversion along with evolving higher expectations for short-term rates, through the comments of Powell and other Fed members. Only high yield fell back a percent along with weaker sentiment for equities, which these tend to have a higher correlation to. Foreign bonds fell back upon higher rates, especially with the Bank of England surprise, even though the U.S. strengthened on the week. A unique recent dynamic in the U.S. municipal market has been the FDIC unloading their 'inherited' portfolio (assets confiscated from failed banks, like Silicon Valley), raising supply in that market relative to normal, although demand for higher-quality muni bonds appears to be ample.

Commodities fell back across the board last week, along with rising recession fears, especially in the energy patch. Crude oil specifically was down -4% on the week to $69/barrel. Interestingly, though, and contrary to media discussion of oil prices, demand has only fallen minimally over the past year, while supplies have dropped far more sharply, in keeping with the OPEC+ cut narrative—the combination of forces has only served to keep the oil price drop from being worse as of late. On the other hand, natural gas prices spiked again by nearly 5% on the week with a heat wave in the southern plains and Texas raising cooling demand as summer officially begins.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.