Summary

Economic data for the week included a drop in existing home sales offset by stronger sales for new homes. Consumer sentiment fell to an all-time low, although long-term inflation expectations improved (declined) from an earlier report.

Global equity markets recovered sharply last week with sentiment improving, as inflation may be showing signs of slowing. Bonds also fared positively, with yields falling and corporate spreads tightening. Commodities also fell back in a variety of segments, including grains, metals, and natural gas.

Economic Notes

(0/-) **Existing home sales** for May fell by -3.4% to a seasonally-adjusted annualized rate of 5.41 mil. units—slightly better than the -3.7% median forecast. Single-family activity fell a bit further, down -4%, with a lesser change in the smaller condo/co-op group. Regionally, the Northeast was the only area to experience a gain in sales, while all others fell by the mid-single digit range for the month. The year-over-year result showed a decline in existing sales of nearly -9% nationally. The median sales price rose 1.2% in May to $407,600, which represented a 14.8% gain on a year-over-year basis, and in fact was the first over-$400k reading in the history of the series. The months' supply of homes ticked up by 0.2 to 2.3, but remains well below pre-pandemic readings (by almost half).

(+) **New home sales** rose by 10.7% in May to a seasonally-adjusted annualized rate of 696k, surpassing the -0.2% decline expected. Additionally, March and April sales were revised up by 54k. Regionally, May sales were led by the West and South, while they declined in the Northeast and Midwest. The new home sales figure was -6% below the levels a year ago. The median price came in at $449,000, down a percent from the prior month, but 15% higher on a trailing 12-month basis. The months' supply of new homes fell by -0.6 to 7.7.

Supply and demand continue to show a high degree of imbalance in housing markets. However, mortgage rates nearly doubling over the past several months have already started to slow activity, particularly in more expensive markets. As with vehicles, but to a more extreme degree, home purchases have tended to be evaluated on 'monthly payment'. Thus, changes in financing costs necessitate (eventual) adjustments in pricing downward to get the math where it needs to be for buyers. This has started to happen a bit faster in more expensive housing markets, such as Canada, but could take longer in the U.S. due to the shortage in inventory.

(-) The final **Univ. of Michigan index of consumer sentiment** for June saw a revision downward by -0.2 of a point to 50.0, below the consensus forecast of no change at 50.2, and reaching a new record low. Compared to the preliminary result, assessments of current conditions fell by nearly two points, while expectations for the future improved by almost a point. However, anecdotal commentary noted that over three-quarters of respondents expect 'bad times' in the coming year, which is the poorest sentiment expressed since the latter stages of the financial crisis in 2009. Nearly half of those respondents blame inflation for the deterioration in conditions, which is not surprising, especially considering the recent rise in retail gasoline prices. Inflation expectations for the coming year ticked down by -0.1% to 5.3%, while the closely-watched 5-10 year expectations were revised down by -0.2% to 3.1%. The latter number, the preliminary reading of which at 3.3% was specifically noted by the Federal Reserve as problematic, was a bit of a surprise. The 'final' sentiment report features about 500 survey respondents, which is an expansion on the 300 used in the preliminary reading—so the survey in general isn't overly broad.

Why does the Fed care so much about inflation expectations? Specifically, as noted in a 2016 Fed staff memo, it allows them the flexibility to be more 'passive' on the inflation side, ignoring small short-term fluctuations, and instead, focus on employment. However, when inflation expectations snap out of a normal range (either higher or lower), side effects can drift into other segments of the economy, such as changes in consumer behavior and adverse movements in the dreaded wage-price spiral. For this reason, in almost a reversal from comments made a few years ago (particularly under Chair Yellen), the Fed is de-emphasizing employment in favor of the inflation mandate. This is one of the challenges in having two potentially competing mandates; the Fed is one of only a few central banks to be subject to an additional mandate (maximum employment) going beyond inflation/financial stability.

(0/+) **Initial jobless claims** for the Jun. 18 ending week declined by -2k to 229k, which was just above the 226k consensus estimate. **Continuing claims** for the Jun. 11 week rose by 5k to 1.315 mil., but fell below the 1.320 mil. expected. Claims by state were uneventful, with minimal change. Overall, when looked at as a percentage of total insured, levels remain near all-time lows.

Market Notes

Period ending 6/24/2022	1 Week (%)	YTD (%)
DJIA	5.39	-12.43
S&P 500	6.46	-17.31
NASDAQ	7.51	-25.52
Russell 2000	6.02	-20.88
MSCI-EAFE	2.83	-18.39
MSCI-EM	0.80	-16.95
Bloomberg U.S. Aggregate	0.61	-10.94

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2021	0.06	0.73	1.26	1.52	1.90
6/17/2022	1.63	3.17	3.34	3.25	3.30
6/24/2022	1.73	3.04	3.18	3.13	3.26

U.S. stocks recovered last week, reversing a recent losing streak, as markets sensed additional stability in inflation and a slowing in economic growth (leading to lower inflation). After starting the week up sharply, perhaps with President Biden's comments that a recession wasn't inevitable, after consulting with economist and former Treasury Secretary Larry Summers, which implied possible policy adjustments, sentiment improved further. Friday featured the annual reconstitution of the Russell indexes, which often results in one of the highest-volume trading days of the year, due to $12 tril. in assets tracking these indexes (per Blackrock). The largest shifts tend to occur between 'growth' style boxes of the Russell 1000 and 2000 (which often receive the stocks with more recent higher earnings growth scores, such as energy) and 'value' (where weightings are raised for stocks recently underperforming, including some technology stocks interestingly).

Comments from Fed chair Powell, in semi-annual Senate Banking Committee testimony, alluded to further hopes for a 'soft landing', although giving the impression that fighting inflation continues to take precedence over avoiding a recession. It's been reiterated again and again that it is 'absolutely essential' for the Fed the achieve price stability, albeit a soft landing being potentially 'very challenging' to accomplish. This is a view markets have seemed to embrace, likely realizing that the negative long-term consequences of inflation are far more damaging than a possibly-weak recession, given the few financial excesses in the current business cycle (compared to cycles in the recent past).

Nearly every sector gained ground last week, led by consumer discretionary, health care, and technology up over 7% along with broad market strength. Real estate also gained nearly 8%, as interest rates fell back from recent highs.

Foreign stocks also performed positively last week, albeit to a lesser degree than in the U.S., despite the help from a weaker U.S. dollar. Slowing economic growth pared back expectations for a more aggressive central bank response in coming meetings. Returns were relatively similar across geographies, although China outperformed in emerging markets, in keeping with a continued recovery theme and announcements of additional government stimulus measures.

U.S. bonds gained ground last week, as interest rates pulled back from recent peaks. Treasuries outperformed investment-grade corporates a bit, although high yield corporates were the best-performing of all sectors, following the lead of equity markets higher. Foreign bonds also gained, due to lower rates and the positive influence of a weaker dollar. Russian stocks experienced a technical default over the weekend, as certain grace periods expired, but payment mechanisms to U.S. banks remain closed (although more than enough funds currently exist to make the interest payment, rendering the default symbolic at this point).

Commodities fell back, again moving in a contrary direction to stocks and bonds. While the price of crude oil was minimally changed last week, remaining at just under $108/barrel, agriculture (wheat), industrial metals (due to nickel but also copper), and natural gas all fell back sharply upwards of 5-10%. President Biden put forth a plan for a 3-month gas tax holiday, which would represent about 4% of the current national gas retail price, as well as encouraging states to implement the same with state gas taxes. However, Congressional approval does not appear to be a slam dunk. Regardless, the minimal actions may not be substantial enough to really move the needle on easing energy price pressures on households. Regardless, from highs earlier this month, oil prices have stealthily corrected by -14%, before recovering a bit later in the week. This price erosion has been due to concerns over slowing demand have outweighed those about lower supply as the Russia-Ukraine conflict continues to grind away with little movement in either direction, pointing to a protracted conflict. It's also predicted that OPEC+ members will be upping production, further enhancing available supply. However, crude availability is unable to do much to aid a lack of gasoline refining capacity in the near-term, which offers fewer solutions for current high prices going into the peak travel period.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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, 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.

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