Summary

Economic data for the week included U.S. GDP for the first quarter being revised down slightly, while personal income and spending have remained relatively strong. Durable goods and home prices also showed higher readings, the ISM manufacturing survey showed expansion but at a lower rate, while consumer sentiment has continued to deteriorate.

Global equity markets declined again, ending a poor quarter, due to ongoing fears of a potential central bank-fueled recession. Bonds, however, fared positively in the U.S. as interest rates fell back from highs. Commodities declined, as economic slowdown fears have caused a pullback in prices for metals and grain supplies have moved higher.

Economic Notes

(-) The third and final U.S. **GDP** report for Q1 was revised down a tenth of a percent to -1.6%, with a larger-than-expected impact from the Covid omicron variant. The largest impact was in downward revisions to personal consumption, which came in at 1.8%, compared to the prior 3.1% growth rate. This was especially notable in in-person segments such as recreation. However, inventories were revised upward to a lesser decline, while growth in business fixed investment was raised. The core PCE price index rose at an annualized rate of 5.2% for Q1, a tick higher than the initial estimate, and matching the year-over-year rate.

Estimates for 2nd quarter GDP continue to vary, with the Atlanta Federal Reserve's GDPNow measure showing a drop from a lackluster 0.0% a few weeks ago to a contractionary -2.1% last week. On the other hand, private estimates have been far higher—reflected by the range of Blue Chip economist forecasts—showing roughly 1.5-4.5% (consensus median of 3%), also as tracked by the Atlanta Fed. Are we in a recession already? There hasn't been this much disagreement for some time. It is clear that divergences in the economy continue, with industrial activity such as manufacturing rolling along. However, some activities, including travel and even restaurant meals, haven't yet climbed back to their 2019 pre-pandemic levels.

(0) **Personal income** in May rose by 0.5%, in keeping with expectations, as slightly higher wages/salaries were offset by a decline in government transfer payments. Year-over-year, personal income is up over 5%. **Personal spending** rose 0.2%, short of expectations calling for 0.4%. This resulted in a 9% gain on a year-over-year basis. One recent trend has been a gradual shift from consumption of goods towards services. Accordingly, the personal savings rate ticked up to 5.4%. The **PCE price index** rose 0.6% and 0.3% in May, on a headline and core basis, respectively. Year-over-year, the readings leveled off (from highs in Feb.-Mar.) to 6.4% headline and 4.7% core. The composition of PCE differs from CPI, and is subject to a more detailed calculation method, but the stabilization of both have been reassuring to many expecting a worst case of continued inflation acceleration.

(0/-) The **ISM manufacturing index** for June declined by -3.1 points to 53.0, below the median forecast calling for 54.5. Although the closely-watched index remains in expansionary territory (over a 50 reading), and 15 of 18 sectors growing, this was the lowest result in two years. Under the hood, production improved further into expansion, but employment and new orders both fell several points and into sub-50 contraction territory. Prices paid also fell back, although remaining high, as did supplier deliveries, each of which pointing to some easing in supply pressures. At the same time, reports indicate frustration with continued supply shortages and high energy prices. Coming months will help better discern how much of the impact is supply backlogs making their way slowly through the system versus actual deteriorating demand from consumers (the latter being obviously far more troubling from an economic growth standpoint).

(-) **Construction spending** fell by -0.1% in May, below consensus expectations of a 0.4% gain; however, the report included significant revisions upward by over a half-percent each for March and April. Private residential spending increases were offset by a decline in non-residential, while public construction declined in both categories—even more so when the impact of inflation is considered.

(+) **Durable goods orders** for May rose by 0.7%, which surpassed expectations calling for 0.3%. On a core level, capital goods orders were up just a slightly lower 0.5%, which was also about twice expectations. Core capital goods shipments rose 0.8% in May, exceeding the median forecast of 0.2%. Under the hood, it appeared autos and defense aircraft saw gains, as did metals, machinery and electronics. On the other hand, commercial aircraft and electrical equipment orders fell back, as supply/demand imbalances continue. This positive report somewhat combats the perception that economic growth is declining and heading slowly into recession.

(+/0) The **S&P/Case-Shiller home price index** rose 1.8% in April, a tenth short of the expected 1.9%. All 20 cities saw an increase, led by the Sun Belt—Miami, Tampa, and Dallas were all up over 2.5%. Year-over-year, the national index ticked up to 21.2%, which is another new all-time high for the series.

(+) The **FHFA house price index** rose a similar 1.6% for April, 0.2% stronger than the median forecast. All nine regions experienced an increase, led by gains of 2.0-2.5% in West South Central (OK, AR, TX, LA) and West North Central (MO north to ND). Here, the year-over-year rate of increase decelerated by -0.3% to 18.8%—a still-strong showing. The pace of home price increases has remained strong, due to lack of inventory, but this is now fairly old data considering slowing in activity that has been taking place in some markets. The summer months may show the enhanced effects of higher mortgage rates (which have doubled from year-end), causing affordability to be sharply constrained for many lower- to mid-range buyers.

(+) **Pending home sales** in May rose 0.7%, surpassing expectations of a -4.0% decline for the month. The Northeast saw a 15% gain, while the West experienced a -5% decline. Year-over-year, national pending home sales remain down -12%, but the positive month potentially bodes well for future existing home sales numbers.

(-) The Conference Board **consumer confidence index** for June fell back by -4.5 points to 98.7, below the consensus forecast of 100.0, and reaching a 16-month low. Assessments of present conditions edged down slightly, and hovered around similar levels as to recent months, while expectations for the future fell by over -7 points (to a 9-year low). The labor differential, which assesses the ease in finding a job, was little changed, with over half of respondents continuing to feel that jobs were plentiful. High inflation continues to be a primary culprit in negative sentiment among consumers, particularly as it translates to gasoline and food prices, as noted by an economists at The Conference Board. Markets have tended to react to consumer confidence reports due to assumptions that opinion will translate into better or worse buying behavior.

(0) **Initial jobless claims** for the Jun. 25 ending week declined by -2k to 231k, 1k higher than the consensus estimate. **Continuing claims** for the Jun. 18 week fell by -3k to 1.328 mil., 10k above estimates. State-by-state changes were minimal, as in recent weeks, with the overall level of claims as a percentage of possible insured remaining near all-time lows. There has been anecdotal reporting of new hiring freezes and layoffs in some sectors, but this has not yet translated into actual data.

Market Notes

Period ending 7/1/2022	1 Week (%)	YTD (%)
DJIA	-1.27	-13.54
S&P 500	-2.18	-19.11
NASDAQ	-4.12	-28.60
Russell 2000	-2.09	-22.54
MSCI-EAFE	-2.19	-20.18
MSCI-EM	-1.58	-18.27
Bloomberg U.S. Aggregate	1.27	-9.81

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
6/24/2022	1.73	3.04	3.18	3.13	3.26
7/1/2022	1.73	2.84	2.88	2.88	3.11

U.S. stocks fell back last week, with continued concerns over a hawkish Fed (along with their own comments) that rising rate policy pushing the economy into recession is quite possible, coupled with continued poor sentiment. The S&P closed out the worst first half of a calendar year since 1970, with both stocks and bonds posting consecutive quarterly declines for only the second time since 1980. By sector, defensive utilities gained 4%, followed by energy and consumer staples. Cyclical areas consumer discretionary, technology, and communications fell back by up to -5%. Real estate lost a half-percent, tempered by the drop in interest rates during the week.

Foreign stocks declined in similar magnitude to U.S. equities, with Europe faring a bit worse than other regions, with differing expectations about potential ECB rate hikes this summer. Emerging markets fared a bit better, with flattish results from China and Brazil. Chinese equities, following a stretch of poor economic results and lockdowns, have benefitted from stronger investor interest considering perhaps the worst being past, with improving industrial activity and low starting valuations.

U.S. bonds gained ground last week, as interest rates continued to tick back downward. Treasuries outperformed investment-grade corporates, as spreads widened again. High yield, on the other hand, lost ground for the week. A stronger dollar was a headwind for foreign bonds, but foreign developed market governments still performed positively, while emerging market debt was mixed.

Commodities fell back last week, led by declines in grains and industrial metals. Grain prices recently have been affected by Russian unloading onto the world market, both to generate revenue, and provide countries needed supply, as well as benign growing weather elsewhere. The price of crude oil ticked back up by nearly a percent to above $108/barrel, with prices falling back from June highs due to rising OPEC production. Natural gas, on the other hand, corrected back by -9% on the week. Commodities were the only asset class in Q2 with a positive return, and have earned returns over 35% year-to-date, as measured by the S&P GSCI index. Despite many years of disappointment, disrupted supply/demand conditions have allowed commodities to shine during a difficult period for other financial assets.

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, 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.