Summary

Economic data for the week included gains in industrial production, while retail sales fell. Inflation remained elevated but showed increasing signs of softening in certain areas—particularly in producer prices.

Global equities ended the week higher, as sentiment remained robust. However, bonds lost ground as interest rates ticked higher. Commodities were mixed, with crude oil prices up slightly.

Economic Notes

(-/0) **Retail sales** in March fell by -1.0%, further than the -0.5% decline forecast. Removing the volatile autos, gasoline, and building materials components helped core/control sales up to a lesser -0.3% drop, which was on par with expectations. The differential was due to a -6% decline in gas station sales (dependent on petroleum prices). Otherwise, non-store/online retailers gained 2%, while other segments fell back to an equivalent degree in the other direction, including electronics/appliances, clothing/accessories, and furniture/home furnishings. Over the past year, retail sales are up 3%, the slowest pace in several years, but it gets worse when looking at these nominal figures adjusted for high recent inflation, as 'real' growth ends up in the negative.

(0) **Industrial production** for March rose by 0.4%, twice the 0.2% expected. By category, mining and manufacturing production fell a half percent, with the latter led by larger drops in business equipment and auto production. However, utilities production rose 8%, as a warmer February turned into a colder March. On the downside, year-over-year IP has decelerated from 1% to just over 0.5%. **Capacity utilization** ticked up two-tenths to a robust 79.8%, versus expectations for a decline.

(+) **Import prices** fell -0.6% in March on a headline level, matching the decline when excluding petroleum. Both were about double the expected declines. Leading areas included a -2% drop in industrial supplies, as well as food/beverages, and consumer goods. This provided a bit of relief, as imported inflation is the worst kind—since it doesn't accompany the growth byproduct that usually goes along with inflation on the domestic side (even though too much inflation isn't welcome there either).

(+) The **Producer Price Index** in March fell -0.5% on a headline level and -0.1% for core (the latter being the first month-over-month decline in three years). These were in contrast to expectations for no change and a 0.2% gain, respectively. The underlying categories were led by a -6% drop in energy prices, which carries into a variety of inputs for other products and services, while food rose another half-percent. Year-over-year, the pace of headline PPI decelerated to 2.7%, and 3.4% for core PPI—both of which were 1-2% lower than the prior month and represented significant easing in price input pressures.

(+/0) The **Consumer Price Index** for March rose by only 0.05% on a headline level, and 0.4% for core, excluding food and energy prices. Both were below expectations and below the pace of the prior month, while food prices were unchanged. Energy commodities, such as gasoline, declined -4.5% to lead the headline report. Otherwise, the most meaningful detail was shelter prices decelerating from a nearly 0.8% gain in Feb. alone to 'only' 0.6% in March, as inflation for both standard rent and owners' equivalent rent for residences slowed. This has long been expected as timelier data, such as that from Zillow, pointed to this. However, the shelter inflation pace remains high, and other areas showed continued inflation strength, such as airfares, lodging, car insurance, and daycare—which have coincided with steadily increasing activity. Autos were mixed, with new car prices up a half-percent, while used cars were down nearly a full percent on the month.

Year-over-year, headline and core CPI rose at rates of 5.0% (a full percent lower than last month) and 5.6% (a tenth higher), respectively. Other alternative measures for inflation, have also shown slowing, such as the Atlanta Fed's 'flexible' price inflation, which has eroded sharply from a peak year-over-year rate of 19.7% in March 2022 to the current 1.6%. ('Sticky' price inflation, which includes the pesky shelter costs, is still at a robust 6.6%, but the pace of increase has slowed.) This pace, along with waning worries over the March

banking woes, have again raised the probability of another Fed rate hike in early May, although expectations of further hikes into the summer have fallen away. So, once again, hopes are riding on the possibility that a 0.25% hike in May to 5.00-5.25% could be the high point for the cycle. But, as we've seen, these assumptions are fast-changing.

(+/0) The initial April **Univ. of Michigan index of consumer sentiment** showed a rise of 1.5 points to 63.5, relative to expectations for no change. Assessments of current conditions rose a few points, as did expectations for the future by a point. Inflation expectations for the coming year rose by a surprising full percent, to 4.6%; however, those for the next 5-10 years were unchanged at 2.9%. The inflation expectations component wasn't well-explained in the anecdotal commentary, although volatility in energy prices and byproducts of banking woes could have contributed.

(0) **Initial jobless claims** for the Apr. 8 ending week rose by 11k to 239k, above the 235k forecast. Continuing claims for the Apr. 1 week fell by -13k to 1.810 mil., below the 1.833 mil. consensus estimate. Initial claims were primarily driven by a 10k rise in CA, as well as increases in NJ, CT, and IL. Overall, levels remain low.

(0) The **FOMC minutes** from the March meeting noted that all meeting participants generally felt the 0.25% increase was appropriate, while the banking stresses of the month had caused 'many' members to lower their assessment of the likely terminal rate. In fact, a few members considered no change. (Without the banking concerns, many thought a 0.50% hike more appropriate.) This was due to a general expectation of the economy to enter what's being described as a 'mild recession' later in the year, although a path exists to a soft landing of sorts. However, there remains quite a bit of dispersion around these forecasts in keeping with the greater uncertainty from the inputs. Inflation was noted as having improved but remains 'unacceptably high.'

Market Notes

Period ending 4/14/2023	1 Week %	YTD %
DJIA	1.20	2.84
S&P 500	0.82	8.31
NASDAQ	0.30	16.13
Russell 2000	1.54	1.56
MSCI-EAFE	2.19	11.36
MSCI-EM	1.39	5.11
Bloomberg U.S. Aggregate	-0.48	2.97

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
4/7/2023	4.95	3.97	3.49	3.39	3.61
4/14/2023	5.14	4.08	3.60	3.52	3.74

U.S stocks gained overall last week, despite little economic news to move the needle, although inflation showed ongoing signs of slowly easing. By sector, financials led the way as earnings season began with JPMorgan Chase, Wells Fargo, and Citigroup outperforming expectations, followed by gains in industrials, materials, and energy. More defensive utilities and consumer staples lost ground. Real estate also fell back upon higher rates.

The week started with the International Monetary Fund (IMF) reiterating slower economic growth of 3.0% for the next half-decade, well below the 3.8% level of the last 20 years. Most of the downgrades are due to higher interest costs, resulting from higher inflation, as well as the uncertain, but not positive, of geopolitical tensions. Perhaps not surprisingly, China and India combined represent about half of this year's anticipated growth.

Earnings season has begun for Q1, with only a handful of the usual banks reporting by the end of last week to start things off. Per FactSet, expectations remain for weaker earnings on the order of -7% on a year-over-year basis. In looking by sector, consumer discretionary, industrials, and energy are expected to lead earnings gains for the quarter (the latter at over 30%), while materials and health care are expected to post declines of -35% and -20%, respectively. In fact, consumer discretionary is expected to be the leading sector for earnings in both calendar years 2023 and 2024 at this point. In looking at bottom-up total market expectations, the S&P 500 is currently trading at a P/E of 18.9 on 2023 earnings (which are largely unchanged from 2022) and a more reasonable 16.9 based on 2024 earnings.

Foreign stocks outperformed U.S. last week by a bit, notably in Europe, as industrial production surprised on the upside and lowered recession risks. Emerging markets underperformed, as a decline in China due to weaker economic growth expectations was outweighed a bit by sharp gains in both Brazil and South Korea.

Bonds broadly declined price last week, with interest rates moving higher along with expectations for another Fed rate hike in May. Both governments and investment-grade corporates fell back sharply, while high yield and bank loans gained along with equity market sentiment. Foreign bonds were mixed, as the U.S. dollar weakened slightly.

In commodities, energy and industrial metals saw gains, offsetting slight declines in precious metals and agriculture. Crude oil rose over 2% last week to around $82.50/barrel, surpassed by natural gas up 5% upon colder spring weather. In an odd twist from a year ago, when the Russian invasion of Ukraine caused a panic in world grain markets, Poland and Hungary have temporarily banned Ukrainian grain imports in efforts to help domestic farmers in light of oversupply and resulting plummeting prices (wheat spot prices are down -40% over the past year and -13% year-to-date). This is another example of commodity markets defying common perceptions and expectations.

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, Investing.com, 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.