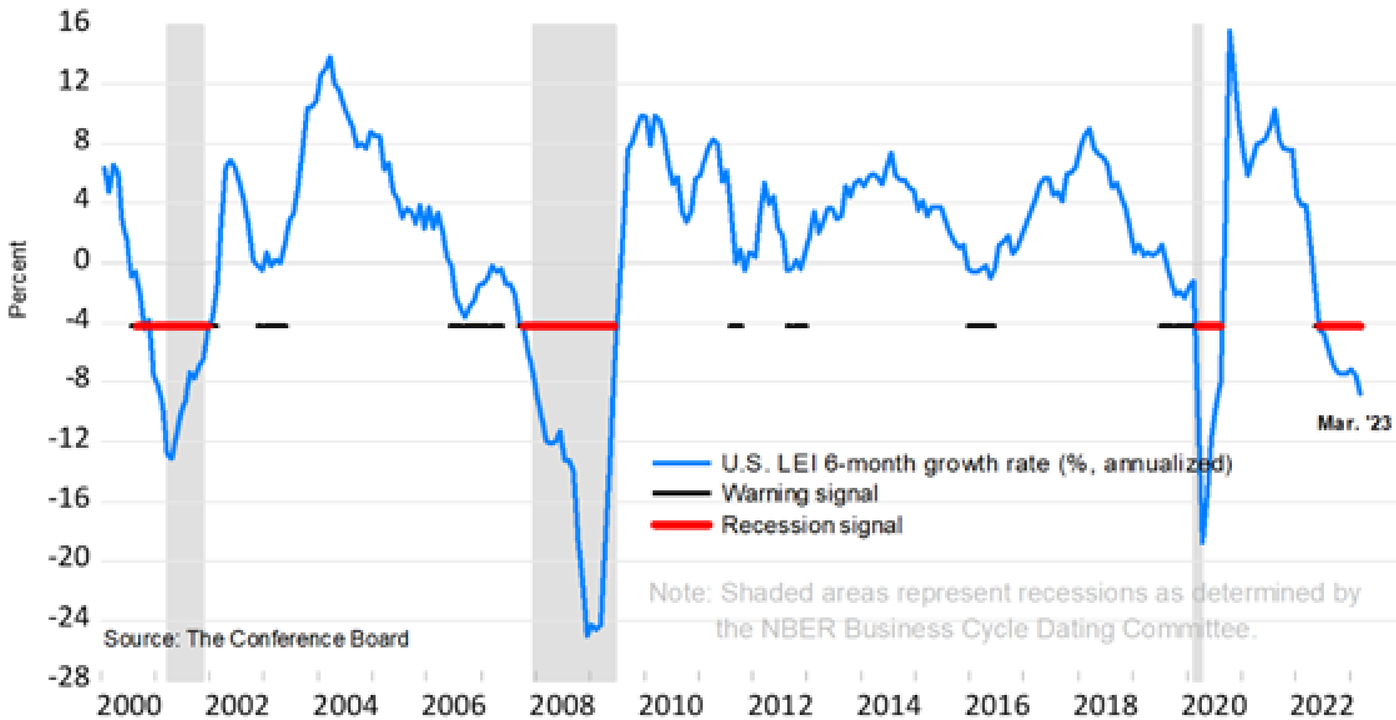
Summary

Economic data for the week included mixed results from several regional manufacturing surveys, while existing home sales and housing starts data deteriorated further.

Global equities were little changed last week, with small gains in the U.S. and developed foreign markets, offset by a decline in emerging markets. Bonds fell back as interest rates rose across the yield curve. Commodities also fell back as crude oil prices reacted negatively to continued fears of lower recession-driven demand.

Economic Notes

(-) The Conference Board's **Index of Leading Economic Indicators** for March declined by -1.2% to its lowest level since Nov. 2020—falling further than expectations for a similar result to February's -0.5% drop. The index has fallen -4.5% over the last six months, which surpasses the -3.5% in the six months prior to that (Mar.-Sep. 2022). Per the Conference Board, the result was in keeping with worsening economic conditions generally, as the majority of indicators have fallen back, with only stock price and manufacturer's new orders showing positivity since October. The largest detractors over the 6-mo. period were consumer expectations for business conditions and ISM new orders. As it has for quite a few months, this 'indicator of indicators' still shows a recessionary signal, correlating strongly to past recessions (as seen in the charts below). The negative growth message remains unchanged.



(+) The **Empire manufacturing index** for April rose by a dramatic 35.4 points back to an expansionary 10.8 level, well above the small improvement to -18.0 expected. New orders and shipments both increased sharply, back into expansion, while employment ticked up a bit, but remained in contraction. Prices paid fell by -9 points but remained in expansion, reflecting inflation relief. Expected business conditions 6 months out ticked higher by 4 points, further into expansion. This is only one regional survey, but the results appear more promising for expansion than recession, at least last month.

(-) The **Philadelphia Fed manufacturing index**, on the other hand, fell by -8.1 points to -31.3, further into contraction and in contrast to the slight improvement to -19.3 expected. However, some underlying data was more optimistic, with shipments, new orders, and employment all gaining, yet remaining in contraction. Prices paid fell by over -15 points, but remained in expansion, although it showed strong improvement in reaching the lowest level in almost 3 years. Assessments of business conditions 6 months out rose by over 6 points, but remained slightly in contraction. The mixed results of the regional data reflect the inconclusive results nationally.

(-) **Existing home sales** in March fell by -2.4% to a seasonally-adjusted annualized rate of 4.440 mil. units, in contrast to an expected decline of -1.8%. Single-family units declined by -3%, while condos/co-ops were unchanged, with the steepest drops in the Midwest and West. Overall sales are down -22% from a year ago. The median sales price is also down -0.9% over the past year (and -13% from peak) to $375,700, reflecting weakness in recent months, exclusively in the West region where housing has long been considered the most expensive. Although inventory rose 1% for the month, the months' supply of existing homes fell further below pre-pandemic rates, to 2.6, about half of the level considered normal. Financing costs have stabilized a bit down from highs around the 6.4% range (30-year fixed rate, per Freddie Mac). However, uncertainty over bank credit availability provides another potential wildcard to housing market activity, while residential mortgages (being collateralized) likely less impacted than are riskier business loans.

(0/+) **Housing starts** for March fell by -0.8% to a seasonally-adjusted annualized rate of 1.42 mil. units, but surpassing the decline of -3.5% expected, coupled with a revision lower for February by a few percent. Single-family starts saw a 3% gain in the month, while multi-family fell back by -6%. The Northeast saw a substantial rise in building of 70%, while the West and Midwest each fell by around -25% to -30%—likely weather-related. **Building permits** fell by -8.8% to an adjusted 1.413 mil. units, a few percent below expectations. Year-over-year, housing starts remain a mixed story, with single-family down a substantial -28%, while multi-family remain up 7%. This has continued the imbalances in the housing sector, with not enough building taking place in houses to meet demand, but has kept prices more elevated than would be expected given the sharp rise in financing rates. On the other hand, the demand has been cushioned by multi-family, although that segment is prone to more dramatic booms and busts, and is also more sensitive to tightening bank credit for projects deemed more speculative.

(0) The **NAHB homebuilder sentiment** indicator for April showed a rise of 1 point to 45, in keeping with consensus expectations. This represented four months of gains after a long stretch of months with deteriorating sentiment. By category, present sales rose 2 points (60% of the survey), future sales gained 3, while prospective buyer traffic was unchanged; the West and Midwest represented all of the improvement. These indexes are diffusion-like, with possible values ranging from 0 to 100, so anything below 50 is more negative than positive. Homebuilding is occurring, albeit at a pace slower than normal, not helped by labor issues.

(0) **Initial jobless claims** for the Apr. 15 ending week rose by 5k to 245k, above the forecast for an unchanged 240k. Continuing claims for the Apr. 8 week rose by 61k to 1.865 mil., above the 1.825 mil. expected. Claims were mixed by state, with the normal larger states showing larger numbers, albeit with a bit more volatility than in prior weeks. Assessments over recent seasonal distortions and revisions to adjust for these continue to create a cloud of skepticism over short-term numbers. However, taken at face value, claims generally have started to rise a bit.

Market Notes

Period ending 4/21/2023	**1 Week %**	**YTD %**
DJIA	-0.19	2.65
S&P 500	-0.09	8.21
NASDAQ	-0.42	15.64
Russell 2000	0.59	2.16
MSCI-EAFE	0.05	11.41
MSCI-EM	-1.95	3.06
Bloomberg U.S. Aggregate	-0.23	2.73

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
4/14/2023	5.14	4.08	3.60	3.52	3.74
4/21/2023	5.14	4.17	3.66	3.57	3.78

U.S. stocks were little changed last week, with light economic data, low volatility, and mixed earnings reports. From a sector standpoint, more defensive consumer staples and utilities stocks rose over a percent, offsetting sharper declines in communications and energy. Real estate also gained, despite higher interest rates, as conditions appear to be stabilizing. Over the weekend, it appears that Bed Bath & Beyond is finally filing for Chapter 11 bankruptcy, although this was likely more of a news item for the meme stock crowd and those betting on either side of its survival than the market in general. Roughly a third of S&P firms will be reporting earnings this coming week, which may move the needle to a greater degree.

It appears that U.S. tax receipts so far have fallen below expectations upon reaching the tax deadline. (April's receipts so far appear to be down nearly -30% compared to those of last year; lower capital gains claimed due to weak equity and bond markets in 2022 no doubt contributed.) This has the unfortunate impact of lowering government revenues, and likely speeding up the debt limit deadline from later summer to perhaps as early as June. House Speaker McCarthy just introduced a bill (the 'Limit, Save, Grow Act') that would raise the current ceiling by $1.5 tril. until spring 2024, which takes discretionary spending back to 2022 levels and caps future spending growth at 1%/year for the next decade. Expect debate on the issue to ramp up in coming weeks, which could lead to market volatility if conditions don't move toward a workable solution. Neither political party wants to be seen as the one to have dropped the ball on this issue, so to speak, with credit quality of Treasury debt at stake. However, at this point, neither side seems to be eager to give up ground.

Foreign stocks generally gained similarly to U.S. equities in developed markets, with Eurozone and U.K. business activity continuing to show improvement, notably in services. However, inflation in the U.K. remained sticky—potentially pressuring central banks further. Emerging markets fell back by several percent, with indications that the U.S. could further restrict Chinese investments in foreign competitors.

Bonds fell back last week as interest rates again ticked higher; senior floating rate loans were the only positively-performing bond category. A stronger dollar negatively affected foreign bonds for the week.

Commodities fell back across the board, with energy leading the way. Crude oil prices fell almost -6% last week to $78/barrel, due to rising fears of recession (again) that play a key role in pulling down petroleum demand. This outweighed the impact of the recent OPEC+ production cut, which was done in some respects to help combat this. Although it's not a commodity seen in major indexes, lithium has been a critical component in battery technology. The president of Chile, a leading producer, announced a plan to nationalize the country's lithium assets. While a transition from private firms is expected, such action is not uncommon in emerging markets from time to time, particularly under more populist regimes seeking to enhance economic growth by bringing back 'in house' high demand resources.

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.

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