Summary

Economic data for the week included a slight revision lower in U.S. GDP growth for Q4, a continued deceleration in home prices, and mixed results for consumer sentiment.

Global equities fared positively to end the quarter, as fears of further banking contagion faded further. Government bonds declined as interest rates rose, while corporates and emerging markets rallied. Commodities gained along with stronger sentiment.

Economic Notes

(0/-) The third and final report of **U.S. GDP** for Q4 of 2022 was revised down a tenth from 2.7% to 2.6%. The small differential was based on consumption in services falling back a bit, and personal consumption overall down an annualized half-percent to 1.0%. On the other hand, non-residential structures saw a strong upward revision. For inflation, the core PCE price index was revised up a tenth to an annualized rate in Q4 to 4.4%.

The release represents very old data by now, but the Atlanta Fed GDPNow points to an estimate of 2.5% for Q1-2023. This represents over 3% of growth from consumer spending (which has accelerated this quarter), tempered partially by a drag in inventories and residential investment, which continues to be a problem. The Blue Chip economist consensus forecast shown along with this has improved from an expected negative quarter to now just under a positive 1%, within a range of about -0.5% to +2.0%. That doesn't look like a recession, so it still appears the ball has been punted down the field for at least another quarter.

(0) **Personal income** for February rose by 0.3%, a tenth above expectations, led by gains in wage/salaries as well as rental income, while transfer receipts continued to drop. **Personal spending** rose 0.2%, a tenth short of expectations, with 'real' spending after inflation falling into the negative. For the trailing year, income and spending rose 6% and 8%, respectively, keeping the high level of inflation in mind, reducing the net gains. The personal savings rate ticked up to 4.4%, after revisions. PCE inflation rose 0.3% on both a headline and core level in February. Year-over-year, headline PCE gained 5.0%, down a few tenths from the prior month; core PCE, ex-food and energy, rose 4.6%. This was just a shade below the prior pace, but still well above the Fed's 2% target—although the number is definitely smaller than CPI due to the different composition.

(0) The **S&P/Case-Shiller 20-City Home Price Index** for January showed a decline of -0.6%, better than the -0.9% expected, and a slower drop than in December. Year-over-year, the rate of national price gain decelerated from 4.6% the month prior to now 2.5%. Several cities are now experiencing outright declines, including San Francisco and Seattle, each down at least -5% year-over-year, followed by San Diego and Portland, down around -1% each. However, the Southeast continued to lead, with 12-month gains of 10% or more in Miami and Tampa, with Atlanta just behind. These reflect regional pandemic migration patterns, benefitting the Sun Belt and lower-tax jurisdictions. Unsurprisingly, high mortgage financing costs and economic uncertainty both continue to weigh on activity.

(+) **Pending home sales** for February rose 0.8%, exceeding an expected -3.0% decline for the month. Gains in the Northeast led the way, offsetting smaller gains in other regions, except for the West, which fell -2%. The year-over-year rate improved, but still remained down -21%. This bodes slightly better for upcoming existing home sales in the next few months, but conditions remain challenging with higher rates and now tightening bank credit.

(+) The Conference Board's **index of consumer confidence** for March rose by 0.8 of a point to 104.2, stronger than the median forecast of 101.0. Assessments of the present situation saw a decline of nearly -2 points (as the survey was taken just after the closure of Silicon Valley Bank and associated woes), while expectations for the future rose by nearly 3 points. The labor differential decreased a bit, noting that jobs are slightly less plentiful, but only 10% of survey respondents noted that jobs are difficult to get.

(-) The final **Univ. of Michigan consumer sentiment** survey reading for March was revised down from 67 to 62, just below expectations, reversing several months of improving sentiment. Assessments of current conditions were little changed, while future expectations fell several points along with rising fears of recession (with signs sentiment had been falling even prior to the collapse of SVB). Inflation expectations for the coming year fell to 3.6%, while those for the next 5-10 years were stable at 2.9%.

(0) **Initial jobless claims** for the Mar. 25 ending week rose by 7k to 198k, just above the 196k median forecast. Continuing claims for the Mar. 18 week ticked up by 4k to 1.689 mil., below the 1.700 mil. expectation. Seasonal adjustments and upcoming revisions to these seasonal factors continue to play a role in levels, but otherwise, these are little changed from low levels that point to a strong labor market.

Market Notes

Period ending 3/31/2023	**1 Week %**	**YTD %**
DJIA	3.22	0.93
S&P 500	3.50	7.50
NASDAQ	3.38	17.05
Russell 2000	3.96	2.74
MSCI-EAFE	4.02	8.47
MSCI-EM	1.95	3.96
Bloomberg U.S. Aggregate	-0.46	2.96

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
3/24/2023	4.74	3.76	3.41	3.38	3.64
3/31/2023	4.85	4.06	3.60	3.48	3.67

U.S. stocks gained to end the quarter, despite little meaningful economic news. Every sector experienced a positive week, with more cyclical energy, consumer discretionary, and materials all up over 5%. Real estate also gained about 5%, despite interest rates rising. Generally, waning fears of a broader banking crisis have appeared to fuel a relief rally of sorts. Mid-week, the Biden administration and U.S. Treasury proposed a new set of regulations for mid-sized banks with $100-250 bil. in assets, including stronger capital and liquidity requirements, annual stress tests, and bolstered supervision, including specific tests to determine a bank's ability to withstand higher interest rates. These would close the gap somewhat with what larger banks are required to undergo, by reversing the loosening in regulations several years ago.

For Q1, 'growth' stocks were the surprise winners, buoyed by lower valuations after sharp declines in 2022, as well as perceived stronger performance in a slower growth environment, compared to more cyclical 'value' names. This was behind the strong upward trend in the tech-heavy Nasdaq since late January, in fact, pushing these up 20% back into bull market territory. There is a growing 'flight to quality' component seeming affecting some of these stocks in technology stocks as well, with strong free cash flow growth preferred by investors this year over more uncertain banking names. Speaking of which, early in the week, the purchase of failed Silicon Valley Bank's assets by First Citizens BancShares appeared to help the latter's stock price, but also market sentiment.

Foreign stocks fared positively as well, along with fading fears of a bank crisis, in addition to European inflation slowing further than expected. Emerging markets gained to a lesser degree, largely led by Brazil and Mexico, along with stronger commodity prices. While China fell in the middle of the pack, the new Premier reinforced the nation's commitment to continue reopening progress and pro-business reforms, and perhaps an easing on regulation, all of which could positively add to global GDP growth. The evolving regulatory environment was shown by the split of Alibaba into six different units, segmented by e-commerce, cloud, and media, after years of stronger government crackdowns on internet firms.

Bonds were mixed on the week, with treasuries down as interest rates ticked higher across the yield curve. High yield and floating rate bank loans both gained sharply, along with equities. Foreign bonds were mixed, despite the tailwind of a weaker dollar, with emerging market debt gaining along with broader risk-taking. Fixed income sentiment continues to waver along with changing expectations about the Fed's potential ending point.

Commodities fared positively across the board, led by energy. Crude oil rose over 9% last week to just under $76/barrel, due to a decline in expected supply numbers—the Iraq government halted exports from Kurdistan due to a disagreement with Turkey. (Prices rose again by 6% in early trading this morning, as OPEC+ members decided on production cuts of 1.15 mil. barrels/day to stabilize prices.) Wheat prices have seen rising volatility with threats of a halt of Russian exports (potentially in response to a drop in prices prior).

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.