Summary

Economic data for the week included Q1 U.S. GDP growth coming in lower than expected, gains in durable goods orders, and continued mixed results for housing markets.

Equities rose last week as earnings came in surpassing low expectations, with the U.S. outperforming international. Bonds fared well as interest rates fell back with weaker economic data. Commodities also fell back generally for the same reasons, with crude oil prices down slightly.

Economic Notes

(-/0) The advance **U.S. GDP** release for Q1 came in at 1.1%, well below the consensus expectation of 1.9% and prior Q4 2022 reading of 2.6%. The largest positive contribution to GDP growth in the quarter came from personal consumption, which rose at an annualized rate of nearly 4% (contributing a positive 2.5% to the GDP figure), with gains in both goods and services. Also, Federal spending rose at an 8% rate. These were offset by an annualized -13% decline in gross private domestic investment (removing -2.3% from the GDP number), notably via declines in equipment and residential structures. Inventories also fell back, while net exports contributed slightly. While dramatic this quarter, inventory effects tend to provide a corrective element to GDP, with extreme movements one quarter often followed by the opposite movement the next, so these tend to be discounted. The GDP price index came in at 4.0%, a few tenths faster than expected. The core PCE price index rose at an annualized pace of 4.9%, above the prior months pace by a half-percent, and above expectations—pointing to the stickiness of inflation pressures.

The final Atlanta Fed's GDPNow measure for Q1 matched the actual reported 1.1% (precision with these things to that degree is rare), with the initial estimate for Q2 coming in at 1.7%. Consumer spending continues to be a positive influence (at about half of the total), along with government spending, while residential investment continues to appear as a drag. The Blue Chip consensus estimate for growth is 0%, within a rough range of -1.5% and +1.0%. While there are two months to go, the general assessment is that Q2 will be far weaker than Q1, which again points to the higher odds of recession. There is simply less room for error and negative shocks when growth falls this low. Then again, the actual difference on a day-to-day basis between slight positive growth and slight negative growth is not huge.

(0) **Personal income** rose 0.3% in March, a tenth above expectations. Personal spending was unchanged, slightly better than the -0.1% decline expected, with gains in services offset by a drop in goods outlays. Over the past year, income and spending are each up 6%. As that result includes inflation, the real increase is far less, as in 1-2%. The personal savings rate ticked up 0.3% to 5.1%, following prior-month revisions.

The PCE price index rose 0.1% on a headline level and 0.3% for core, both largely in keeping with expectations. On a trailing year-over-year basis, headline and core are up 4.2% and 4.6%, respectively. Of course, these differ from CPI in terms of their composition, with the PCE being the preferred measure of the Fed. That said, the 4.6% core inflation tracker remains more than twice the 2.0% target, which points to continued high sensitivity to prices and likely action higher for interest rates this coming week.

(+) **Durable goods orders** for March rose 3.2%, reversing a decline the prior month and surpassing the 0.7% gain expected. This was largely due to a single-month rise in commercial aircraft orders. Removing transports, orders rose a lesser 0.3%, while removing the volatile components, core orders fell by -0.4%, as opposed to expectations of a -0.1% decline. Over the past 12 months, orders are up 5%, with the bulk of this being in transportation. Inflation has affected this series of results as well, with 'real' goods orders far below the official nominal rates.

(0) The **S&P/Case-Shiller 20-city home price index** for the largest U.S. markets rose by just under a seasonally-adjusted 0.1% in February, contrary to an expected decline of -0.4%. Prices rose in over half the

reporting cities, with gains of a percent or more in San Diego, San Francisco, and Los Angeles; on the other hand, Las Vegas and Miami fell over a half-percent. Year-over-year, the series decelerated to a gain of 0.4%, above the 0.1% expected, but over -2% slower than last month's pace. Home prices are down nearly -5% from the peak in June 2022; this is far from catastrophic thus far, but the cycle may not yet be complete.

(+) **New home sales** in March rose by 9.6% to a seasonally-adjusted annualized pace of 683k, reversing 7 straight months of declines, and stronger than the -1.3% decrease expected. However, the prior month's numbers were revised down a bit. Regionally, the Northeast and West saw stronger gains, while sales in the South declined. Sales are down -3% over the past 12 months, while the median home price is up 3% from a year ago to $449,800. Months' supply fell by -0.8 in the month to 7.6, although inventory has seen some improvement. Completed homes have doubled over the past year, while still dwarfed by 'homes not started.'

(-) **Pending home sales** for March, on the other hand, fell by -5.2%, contrary to expectations of a 0.8% increase. The South led with flattish results, while all other regions experienced drops from -8% to -11%. The pending component bodes negatively for existing home sales over the next several months. Year-over-year, pending sales are down -23%, which is not as meaningful a figure as existing or new home sales over a longer timeframe, but negative nonetheless.

(-) The Conference Board's **index of consumer confidence** for April fell by -2.7 points to 101.3, below the consensus forecast for no change. While assessments of present conditions improved by a few points, expectations for the future fell back by nearly -6 points. The labor differential rose by nearly a point as those saying jobs were plentiful (almost 50%) continued to sharply outpace those feeling jobs were 'hard to get' (the latter being only 11%).

(+) **Initial jobless claims** for the Apr. 22 ending week fell by -16k to 230k, well below the 248k median forecast. Continuing claims for the Apr. 15 week fell by -3k to 1.858 mil., below consensus expectations for 1.870 mil. Claims results were mixed by state, with the largest results in the largest states, as would be expected (largest declines in CA and NJ, largest increases in IL). Despite some adjustments in recent weeks for seasonal and pandemic-related distortions, these remain contained.

Question of the Week

Is the U.S. dollar at risk of losing its global reserve currency status?

This is a question that flares up every so often—at least once a year, it seems. It revolves around whether the dollar may lose its role as the preferred go-to medium for global payments and beneficiary of asset flows under times of global financial stress. In short, according to opinions of a variety of economists and political strategists, the dollar may lose its prominence gradually perhaps (as all dominant currencies have in history), but not likely any time soon. This is due to a variety of unique American strengths, not to mention the lack of a clear up-and-coming alternative.

Recent worries stemmed from Brazilian president Lula da Silva's lamenting the dollar's outsized role in settling global commerce, shared publicly during a trip to China, which raised a new round of discussion on the topic. Interestingly, his comments were quite similar to those shared by French president de Gaulle in the 1960's venting the same frustrations. While a few other currencies have gained ground since that time, the dollar remains the standard. Of course, such negative comments about the dollar have the tendency of being self-serving, especially if the observer's own currency value is at a weak point, or if a nation is attempting to improve trade relations with another.

It might help to provide a reminder about what gives a currency worth. Traditionally, there have been three key factors: (1) medium of exchange, (2) unit of account, and (3) store of value. These represent practical considerations, such as the ability to use the currency in day-to-day transactions, and acceptance from a

maximum number of trading partners. For instance, metal coins would be more convenient to use in settling transactions than would barrels of oil or tons of copper; paper notes are even more practical than coins (and weigh less). With most commercial transactions now being electronic, these physical characteristics are even less of a constraint. By unit of account, being divisible into pieces is important, which accommodates modern accounting. (There are practical considerations here, too, such as in the historical cases of currencies depreciating so rapidly that small denominations become no longer relevant, such as during hyperinflation in 1920's Germany, and Zimbabwe in recent decades.) Store of value is a more intangible concept that gets to concepts such as trust in institutions, political and economic stability, military might, natural resource assets, and other economic capital backing the issuer. In the very short term, currencies are valued relative to each other based on relative outlooks for each issuer's levels of inflation, interest rates (related to inflation), and economic growth prospects. With relative stability on key fronts, especially when compared to the costs/benefits of other competing foreign currencies. the U.S. dollar has continued to look attractive as a global reserve.

Removing the political discussion on the topic, this status is borne out in the data. In fact, as of 2022, per research from JPMorgan and the Bank of International Settlements, nearly 90% of all FX transactions have involved the dollar as one of the pairs, with turnover of nearly $7 tril. per day. In addition, the dollar accounts for 85% of activity on currency forward and swap markets, 80% of trade finance, and represents 60% of foreign currency reserves held worldwide (China's ownership of U.S. dollar reserves are a similar 60% as well). For direct trade reasons, emerging market nations tend to hold larger reserves of countries from whom they import military equipment (also largely the U.S.). Several nations, including Hong Kong and Saudi Arabia, continue to peg their currency's value to the dollar, requiring ample dollar reserves for such pegs to be sustainable via constant FX market tweaking.

The U.S. is trusted not only for its physical assets and geopolitical power projection, but even more fundamentally by its 'rule of law' and democratic institutions (despite the political bickering, which has always been a byproduct of democracy). There are few competitors on this front. The next closest contender at this point appears to be the euro, which ranks roughly number two on the list of global payment mediums. While currently trusted as a 'law and order' region, there do remain concerns over the long-term longevity of the eurozone, as the track record for multi-nation currency unions has not been great historically (they've all eventually failed). Also, occasional budgetary arguments pit member states against each other—at several times threatening to break the union apart in recent years. Every time this occurs, it appears to set the euro back a bit in terms of global trust. World War I, 'the war to end all wars,' was followed by World War II just 20 years later, so the precedent for competition and conflict isn't unprecedented. In fact, the geographic isolation of the U.S. provides another subtle benefit geopolitically. The Chinese have taken a greater share in global transactions in recent decades and would prefer to see the yuan take on a larger role on the world stage. The reality at this time is that many trading partners don't see it as a complete alternative, due to the lack of transparency into the nation's economic and exchange rate operations. On the other hand, being heavily exposed to the U.S. dollar can expose a nation to the powerful negative financial impact of sanctions, should those ever be imposed. That concern is generally relegated to a certain sub-set of actors, such Russia, as well as Iran, Libya, and Venezuela, but nations seeking 'sanction diversification' have chosen to find alternative channels to the dollar to avoid being frozen out of world financial payment systems through a secondary safety valve, of sorts. China has offered to fill this this role recently, especially as it fits their interests in securing vital natural resources.

There are other currencies that often take on the role of 'safe haven,' especially during times of global stress. These include the Japanese yen, U.K. pound, Swiss franc, and Swedish krona. While these countries are valued for their consistent policies, several are far smaller, which restricts the ability to absorb large levels of trading liquidity. Gold is often considered a 'currency' of sorts, as it's had that function for thousands of years, with some countries finding gold more desirable culturally than others (notably in South and East Asia). While gold is more cumbersome to trade (even small coins are expensive), it's been seen more as a 'store of value' than 'medium of exchange' for routine transactions. Gold has tended to become more popular in heavily-sanctioned

nations, such as Iran, and other countries where a local currency has sharply depreciated or is extremely volatile in exchange rate value.

Some of these complaints about the dollar are also related to its strength in recent years, although 'strength' is relative when dealing with currencies (quotes are always in pairs). The dollar rose in value by roughly 30% over the last decade, to a point where, at least in prior cycles, it reversed and began to normalize lower. The same pattern happened in the early 1980s and late 1990s. (That dollar strength was during times of rising U.S. interest rates was not a coincidence.) A stronger dollar benefits U.S. importers, by making foreign goods cheaper, and also makes tourism abroad more attractive. It also lowers imported inflation (like for petroleum), which has been a welcome offset to high domestic inflation generally. A weaker dollar, by contrast, raises imported inflation, but also acts as a tailwind to exporters, as goods become automatically cheaper for foreign purchasers. Foreign investments also become more attractive, as they're priced in rising values for foreign currencies. Hence, both sides of the currency trade are a mixed bag.

In short, there seems to be agreement that the U.S. dollar's status as global reserve currency is not under immediate threat at the moment, but there could be a push to broaden the trade basket to include other currencies to dilute this dominance. There is certainty motivation on the part of global politicians to throw stones at the dollar for their own aims, in attempts to raise interest in alternative transaction mediums (such as proposed currency union between Brazil and Argentina, the 'sur'). Of course, in times of extreme stress, the knee-jerk market reaction over the past several decades has been consistent. It's been a rush into U.S. dollars, and dollar-denominated debt, such as treasury bills and notes. Ironically, this flight to the dollar even occurred during 2011's debt limit crisis when the U.S. was on the brink of default—an episode we hope to avoid a repeat of in 2023.

Market Notes

Period ending 4/28/2023	**1 Week %**	**YTD %**
DJIA	0.86	3.53
S&P 500	0.89	9.17
NASDAQ	1.28	17.12
Russell 2000	-1.24	0.89
MSCI-EAFE	0.10	11.53
MSCI-EM	-0.27	2.78
Bloomberg U.S. Aggregate	0.83	3.59

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
4/21/2023	5.14	4.17	3.66	3.57	3.78
4/28/2023	5.10	4.04	3.51	3.44	3.67

U.S. stocks gained last week, largely due to a strong Thursday, as investors digested a packed week of earnings reports. So far, earnings results for closely-watched companies, including tech-related giants Alphabet/Google, Microsoft, Amazon, and Meta/Facebook, have been better than expected. Smaller cap stocks, particularly in the value segment, continue to be hampered by concerns over operating conditions for regional banks. By sector, communications and technology led with gains of 2% or better, while industrials (with a poor showing by UPS), health care, and utilities lost ground in the week. Real estate also gained, as interest rates fell back.

Concerns over First Republic Bank rose again, as the bank continued to seek buyers for long-dated treasury securities to strengthen its financial position. Weaker reported revenue and earnings, as well as substantial deposit flight in Q1, didn't help, as the FDIC and Treasury Dept. explored alternatives with the bank teetering on the edge of survival by week's end.

Per FactSet, 50% of S&P 500 companies have now reported earnings for Q1. Nearly 80% of these have reported a positive earnings surprise, and just under 75% a positive revenue surprise. (Naturally, the common quarter-to-quarter earnings 'game' continues, with low expectations creating a low bar for these 'surprises.') From last week's results, the net decline has actually improved from around -7% to now an expected drop of -3.7%. By sector earnings surprise, consumer discretionary and materials have led the way. In terms of overall earnings growth, consumer discretionary, industrials, and energy have led with double-digit growth rates; on the other hand, materials, health care, technology, and communications have led on the downside with over -10% year-over-year declines. Companies with over 50% of revenues from U.S. sources have fared far better than those with foreign-dominated revenue streams.

Foreign stocks were little changed in developed markets, lagging U.S. equities. Similar fears of recession caused by high interest rates continued to drive sentiment, although the Eurozone GDP rose 0.1% in Q1 (versus no change in Q4 2022). Emerging markets ended the week with a minor rise, as gains in Brazil, India, and Mexico offset declines in China. In the latter, industrial goods production continued to run at a negative pace, with government officials continuing to provide stimulus.

Bonds gained as interest rates fell back last week, with government bonds slightly outgaining corporates. Foreign bonds performed positively, with a larger rate impact.

Commodities fell back last week, in every sector except precious metals. Crude oil fell by over a percent during the week to $77/barrel. Losses across the complex were tied to generally weaker economic growth expectations, which are expected to contain demand. This is despite futile (so far) efforts from producers to control supply to some degree, including recent OPEC+ production cuts.

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.

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