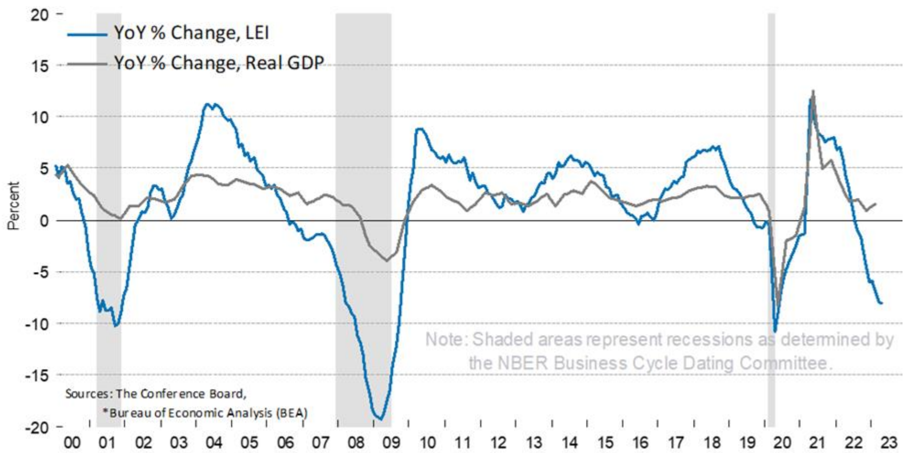
Summary

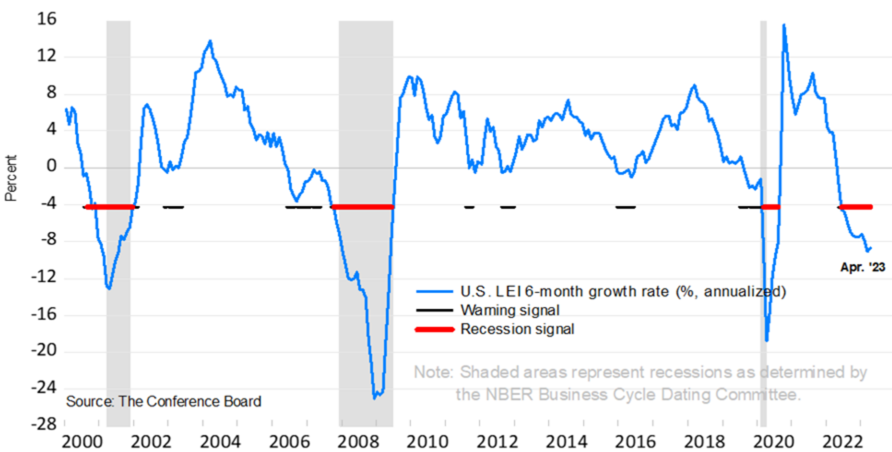
Economic data for the week included increases in retail sales and industrial production, mixed regional manufacturing and housing results, and a decline in jobless claims.

Global equities were higher for the week, with an absence of negative economic data, with a stronger dollar dampening foreign stocks a bit. Bonds lost ground due to rising interest rates. Commodities were led higher by stronger crude oil and natural gas prices.

Economic Notes

(-) The Conference Board's Index of **Leading Economic Indicators** declined -0.6% in April, for the 13th straight month, but at only half the pace of March's drop. Over their measured past six-month period, the index is down -4.4%, which exceeds the prior six-month stretch (Apr.-Oct. 2022) that fell -3.8%. The underlying components saw some improvement from March, with stock prices and manufacturing new orders for capital/consumer goods up, but all else pointed to an economic downturn. The weakest components for the month were consumer sentiment and ISM new orders. These were largely in line with what's fallen the most over the past six months generally. In keeping with the historical correlations of these ten components along with past recessions, current conditions certainly point to a similar outcome in coming months. But it's worthwhile to note that the magnitude is not as severe as the past three recessions since 2000.





(0) **Retail sales** for April reversed course by rising 0.4%, well below the 0.8% median forecast, but contained some upward revisions for prior months. Removing the more volatile components (auto, gasoline, building materials), core/control sales improved to a 0.7% increase, twice the growth expected. Half of the sector categories saw gains, led by non-store/online retail, general merchandise, and autos; on the other hand, gas stations led the decline, in keeping with lower prices.

Over the trailing 12 months, retail sales are up nearly 2%. Again, when accounting for inflation that has been roughly twice that pace, 'real' retail sales morph into a decline. Concern continues to fester about the strength of consumer buying power boosted by government stimulus over the first two years of the pandemic now fading. (Expiring pandemic food stamp benefits did play a role with weaker food/beverages sales.) But it isn't completely depleted, which lends hope for the rest of 2023, with the impact perhaps being the difference between recession and no recession.

(+) **Industrial production** in April rose by 0.5%, exceeding expectations calling for no change. Manufacturing production rose by a percent to lead the way, with a sharp gain in auto assemblies (up over 9%, in fact, the strongest level in three years since the pandemic began); however, it was also revised down for prior months. Business equipment also gained over a percent. Utilities output, on the other hand, fell -3%, with weather effects offsetting the positive manufacturing data. Capacity utilization ticked up by 0.3% to 79.7%, which had been downwardly revised. Year-over-year, industrial production is up 0.2%, again pointing to a flattening in this space relative to the strength on the services side.

(-) The **Empire manufacturing index** for May fell by a dramatic -42.6 points from expansion back into contraction at -31.8, well below the expected -3.9 reading. Both shipments and new orders fell in line with the headline figure, while employment rose nearly 5 points just to barely contractionary territory. Prices paid also ticked back up 2 points deeper into expansion. Business conditions six months ahead rose by 3 points, further into expansion.

(0) The **Philadelphia Fed manufacturing index**, on the other hand, rose 20.9 points in May, but stayed at a still-contractionary -10.4 reading. This was well above expectations calling for -20. New orders and shipments both gained, but stayed contractionary, while employment fell back more solidly into contraction. Prices paid ticked up by a few points to about 11, while prices received fell to the lowest level in three years. Expectations for business conditions six months out fell by -9 points further into contraction. These regional surveys have shown sometimes contrasting results as of late, and again highlight the mixed signals the economy has been putting out.

(-) **Existing home sales** in April fell by -3.4% to an annualized seasonally-adjusted rate of 4.28 mil. Year-over-year, sales remain down -23%, with listings down -27% to a depressed level based on history. The median existing home price rose in the month to $388,000, but is down -2% from last year. The months' supply of homes came in at 2.9, which is just half what might be considered 'normal' inventory. The market remains challenged by high prices in coastal cities especially (even if conditions aren't getting worse), and the doubling of financing rates to the current 6.5-7.0% levels. Both continue to make housing challenging, with prospects remaining unclear towards late 2023 and into 2024, with rents remaining high as well.

(+) **Housing starts** for April rose by 2.2% to a seasonally-adjusted rate of 1.401k, exceeding the expected decline of -1.4%; however, it also included a revision lower for March. Both single-family and multi-family starts gained, with the latter a bit more than the former. The West and Midwest saw gains of over 30% each, offsetting the over -20% drop in the Northeast. Year-over-year, starts are down -22%, with the bulk of that due to a drop in single-family; however, homes 'under construction' remain the highest in over 50 years, which is promising to help relieve inventory shortages. Building permits fell -1.5% to an adjusted rate of 1.416 mil., below forecast calling for no change. These were led by a sharp decline in multi-family offsetting a rise in single-family permits.

(+/0) The **NAHB homebuilder sentiment index** in May rose 5 points to 50, back to a neutral reading of neither positive nor negative opinion. Present sales and expectations for the future each rose a bit to the high 50's, pointing to stronger sentiment, while prospective buyer traffic remained a low 33. The index has continued to show improvement this year from very negative levels at year-end, despite more challenging mortgage financing rates.

(+) **Initial jobless claims** for the May 13 ending week fell by -22k to 242k, below the 251k forecast. Continuing claims for the week of May 6 fell by -8k to 1.799 mil., below the 1.820 mil. expected. The prior week's news was tainted by an unusually huge number of fraudulent claims in MA, which appears to have been partially corrected for. Otherwise, these were little changed by state.

Market Notes

Period ending 5/19/2023	**1 Week %**	**YTD %**
DJIA	0.50	1.69
S&P 500	1.71	9.91
NASDAQ	3.08	21.37
Russell 2000	1.93	1.27
MSCI-EAFE	0.36	11.35
MSCI-EM	0.51	2.94
Bloomberg U.S. Aggregate	-1.37	1.88

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
5/12/2023	5.25	3.98	3.45	3.46	3.78
5/19/2023	5.29	4.28	3.76	3.70	3.95

U.S. stocks were higher overall on the week, with sentiment increasingly tied to U.S. debt limit negotiations. Signs of positivity mid-week were followed by less enthusiasm by Friday as plans hit a 'pause.' It appears that Congress and the President have been ramping up efforts to find a debt ceiling deal, with a rising consensus the Treasury will exhaust funds in early- to mid-June. That said, while the meeting frequency is ramping up, and the President appears to be shortening an upcoming Asia trip to work on this, a final deal does not seem imminent yet. Democrats have even attempted a 'discharge petition,' with an attempt to gather the support of moderate Republicans; however, the unique requirements make it less likely to succeed. Unlike prior episodes, though, stock market volatility during this debt episode has been muted, although signs of progress did help the market upward mid-week.

By sector, 'growth' segments technology, communications, and consumer discretionary seeing gains, as well as financials with risks there appearing to fade (again). Defensive sectors utilities, consumer staples, and health care lagged with negative returns. Real estate also declined -2% along with higher interest rates. Disappointing results and guidance from Home Depot pulled sentiment down, in the first year-over-year sales decline in nearly 15 years. It was an inevitable acknowledgement that the home-spending of the pandemic economy has now rolled over more toward normalcy.

Comments from Fed Chair Powell noted that policy remains restrictive, with risks of doing too much versus too little were generally 'balanced,' and that decisions will be made meeting to meeting. (While decisions are always made meeting to meeting, this time it implies the set tightening 'path' is no longer in place.) However, these comments were taken by markets as a bit hawkish, as further hikes are still on the table, a view that other Fed members have shared, with inflation remaining where it is. All in all, a pause in June still appears to be the base case.

Foreign stocks were positive, albeit to a lesser degree than in the U.S., with the headwind of a stronger U.S. dollar. Japan fared slightly better, while the U.K. did a bit worse, with some industrial indicators in Europe falling further—fueling recession fears. Many emerging market nations were flattish on the week, with strong gains in South Korea and Taiwan, offset by nearly a -10% drop in Turkey. Markets were a bit surprised by the Turkish election of the prior weekend turning into an upcoming run-off between President Erdogan and a key opposition candidate wanting a move back toward a less secular state, and one that would pivot back toward the West and away from Russia; later polls showed the current President holding a lead. Investors continue to be somewhat concerned over Chinese economic data not recovering as sharply from the pandemic reopening as first hoped.

Bonds suffered negative returns last week as yields climbed across the yield curve, driven by the absence of negative economic data and fall in jobless claims. High yield and floating rate bank loans outperformed treasuries and investment-grade corporates. Foreign bonds were held back by a rally in the dollar.

Commodities were also mixed, with gains in energy offset by declines in agriculture and precious metals. Crude oil rose over 2% last week to $72/barrel, while natural gas prices surged 11%. Both appeared to be somewhat affected by wildfires in Alberta, Canada, which have taken up to 300k barrels/day out of production, in addition to a drop in the number of U.S. gas drilling rigs.

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.