Summary

Economic data for the holiday-shortened week included strength in the May employment situation report and construction spending, while ISM manufacturing and consumer confidence declined.

Global stocks broadly rose last week, helped by the conclusion to the U.S. debt ceiling negotiations and strong labor data. Bonds fared well as interest rates ticked downward. Commodities were mixed, with energy again falling back.

Economic Notes

(0/-) The **ISM manufacturing index** for May ticked down by -0.2 of a point to 46.9, just under the median forecast calling for 47.0. Production and employment both rose several points into expansion, which was a surprise. However, the new orders measure fell over -3 points further into contraction (which is closely-watched due to a higher correlation with future economic activity). Supplier deliveries fell further into contraction, noting that delivery times improved, while prices paid fell -9 points into contraction—in this case, reflecting moderation in goods price inflation. Order backlogs also fell sharply back, in recessionary form. The overall index continues to point to a weaking industrial outlook, with it in contraction for the 7th straight month, indicating higher odds of recession, even though several underlying components reported a mixed story again casting doubt on how much deterioration is actually happening.

(+) **Construction spending** for April rose by 1.2%, far exceeding the expected 0.2% rise. This was led by private non-residential spending up over 2%. Results from public spending were mixed, with a percent gain in non-residential offset by a similar decline in residential. More good news was that spending costs fell by a half-percent, implying that real construction spending turned positive, in contrast to recent trends related to high construction costs.

(+) The **S&P/Case-Shiller 20-city home price index** rose 0.5% in March on a seasonally-adjusted basis, exceeding expectations for no change, and led by gains in 15 of the 20 cities. Leaders included Detroit, New York, and San Diego, all up 1% or more on the month; on the negative side, prices in Seattle fell -1%. Nationally, on a year-over-year basis, the index is down -1%, and remains -4% below the peak from last summer. While strong home price appreciation has flattened out, demonstrated by these numbers, signs of outright sharp declines remain at bay, other than for a few key expensive cities in the West.

(0) The Conference Board **index of consumer confidence** for May fell by -1.4 points to 102.3, above expectations calling for 99, after including an upward revision for April. Future expectations fell just slightly, while assessments of present conditions fell by over -3 points. The labor differential, measuring the difficulty in finding jobs, fell by -6 points to its lowest level in two years as the indicator for jobs being plentiful fell. It appeared the U.S. debt ceiling drama may have played at least a partial role in the negativity behind present conditions.

(+) The **JOLTs** government job openings rose by 358k to 10.103 mil. in April, well above the 9.400 median forecast. Gains were strongest in retail (209k), health care (185k), and transportation (154k), while accommodation/food services fell (-80k), as did professional/business services (-57k), and state/local government ex-education (-45k). The rate of job openings rose 0.2% to 6.1%, while the hiring rate was unchanged at 3.9%. On the other side, the layoff rate fell by -0.2% to 1.0%, and the quits rate fell by -0.1% to 2.4%. The gap between jobs and workers continued to tighten, but remained somewhat high, with measurement complicated by a lower survey response rate.

(0) **Initial jobless claims** for the May 27 ending week rose by 2k to 232k, just below the 235k forecast. Continuing claims for the May 20 week ticked up by 6k to 1.795 mil., under the 1.800 mil. expectation. Claims rose slightly in OH, while they declined a bit in CA. Seasonal adjustments appear to have worked their way through, as has recent fraudulent activity, which has stabilized the claims series a bit.

(+) The **ADP private employment report** showed a gain of 278k, exceeding expectations calling for 170k, and was primarily driven by small- to medium-sized companies, as those over 500 employees saw a decline. Services jobs rose 168k, with a 208k gain in leisure/hospitality outweighing declines elsewhere, such as in finance, information, and education. Goods-producing jobs rose by 110k, with gains in natural resources/mining as well as construction offsetting a large drop in manufacturing.

(+/0) The May employment situation report came in far better than expected in some respects, but showed signs of cooling as well. **Nonfarm payrolls** rose by 339k, far surpassing the 195k expected, but hovered right around the average monthly gain over the past 12 months. This was in addition to a combined 93k revision upward for the March and April payroll figures. The largest May gains occurred in professional/business services (64k), government (56k), health care (52k), leisure/hospitality (48k, most of which were again in bars and restaurants), and construction (25k); on the negative side, information jobs fell (-9k), as did manufacturing slightly. While temporary jobs had been declining in recent months (correlated to a weaker economy), even these picked up in May.

The U-3 **unemployment rate** ticked up by 0.3% to 3.7%, ahead of the small expected increase to 3.5%, despite the unchanged labor participation rate. The civilian employment rate in this survey fell by -310k, as the number of reported self-employed fell. The U-6 underemployment measure rose by a tenth to 6.7%, remaining within its tight range over the last six months. **Average hourly earnings** rose 0.3%, which brought the year-over-year increase to 4.3%. The **average workweek** length ticked down by -0.1 to 34.3.

Earlier in the week, **nonfarm productivity** showed a revised decline of -2.1% in Q1 on an annualized basis; on a year-over-year basis, productivity improved by a percent to a less negative -0.8%. **Unit labor costs** rose for Q1 were revised down by -2% to an annualized rate of 4.2%; here, the year-over-year rise in costs was revised down by -2% to 3.8%. This is a positive from the standpoint of the labor cost relationship to inflation (as a self-reinforcing driver of it).

Market Notes

Period ending 6/2/2023	1 Week %	YTD %
DJIA	2.17	2.89
S&P 500	1.88	12.37
NASDAQ	2.07	27.01
Russell 2000	3.32	4.62
MSCI-EAFE	0.88	9.76
MSCI-EM	1.25	3.80
Bloomberg U.S. Aggregate	0.96	2.17

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
5/26/2023	5.34	4.54	3.92	3.80	3.96
6/2/2023	5.50	4.50	3.84	3.69	3.88

U.S. stocks gained last week, with Wednesday night's news of the House passing the U.S. debt ceiling deal in an uneventful manner, seen as the biggest hurdle to full approval, which was followed by the Senate on Thursday night. This pushes the ceiling beyond the 2024 election and into Jan. 2025. The formal name, the

‘Fiscal Responsibility Act,’ might either be seen as antagonistic or ironic, depending on what side one is on, as it features a variety of discretionary spending caps for future years, reducing funding for the IRS, among other projects approved in earlier legislation. Friday’s strong jobs report also buoyed sentiment higher.

Every sector ended in the positive last week, led by consumer discretionary, materials, and industrials; defensive consumer staples and utilities experienced the smallest gains. Real estate also gained over 3% with lower interest rates.

Foreign stocks gained, albeit to a lesser degree than U.S. equities, aside from Japan, which outperformed. Sentiment appeared largely driven by the U.S. debt ceiling finale, as well as slowing eurozone inflation. In emerging markets, most of the largest nations earned moderate gains, with leadership by Turkey, which sharply outperformed on the heels of the completion of a long election cycle and re-election via runoff of the current president, providing at least continuity. Mixed manufacturing data from China continued, one report stronger and one weaker, which offers a conflicting message relative to hopes for a strong post-Covid recovery. As in the U.S., challenged goods-related spending has been offset by far stronger growth in services (such as retail spending).

Bonds gained across the board last week, as interest rates fell on the longer end of the treasury yield curve. This was likely related to weaker manufacturing data as well as the short-term ‘risk premium’ built in with the debt ceiling uncertainty. Investment-grade credit and high yield both outperformed governments, while floating rate bank loans also fared positively. Foreign bonds also fared well, with rates and spreads cooperating.

Commodities were little changed on net for the week, with small gains in agriculture and metals offset by a decline in energy. Crude oil fell over a percent last week to under $72/barrel, with uncertainty over the upcoming OPEC meeting, along with rising U.S. inventories. Natural gas prices fell another -10% (over -50% year-to-date and -75% over the past year), due to the influences of better weather and high storage.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

Sources: FocusPoint Solutions, ADP, 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.