Summary

Economic data for the week included producer and consumer price inflation continuing to decelerate—and even more so than expectations. Consumer sentiment also improved to the highest point in several years.

Global equities gained last week on the back of the improving U.S. inflation data. Bonds also gained along with the retreat in interest rates. Commodities rose with help from a weaker dollar.

Economic Notes

(+) The **Producer Price Index** for June ticked up 0.1%, below the 0.2% gain expected. The divergence between economic sectors continued, with producer goods prices unchanged, and services up 0.2%. Energy prices rose 0.7%, while food prices fell by -0.1%. Year-over-year, headline PPI decelerated to a barely-positive 0.1%, while core PPI (ex-food, energy, and trade) fell to 2.6%. Within those figures, goods PPI declined by -4.4%, offset partially by services prices up 2.3%, resulting in the total flattish figure. However, those comparatives are largely due to large rises in prices during the start of the Ukraine-Russia conflict last year.

(+) The **Consumer Price Index** continued to improve for June, with headline and core (ex-food and energy) CPI each rising just under 0.2%, a tenth lower than expectations. In fact, the core number was the lowest in over two years. On the headline side, food prices rose a tenth, while energy commodities gained 0.8%. Within core, rents gained another 0.5%, showing a stickiness and lack of flow-through (yet) from weaker rent data seen in other reports, and apparel gained 0.3%. Airline fares fell by a dramatic -8% in the month, while used car prices fell -0.5%, offsetting rises in car insurance and maintenance (where parts are still being hampered by supply shortages).

Year-over-year, headline and core CPI decelerated to 3.0% and 4.8%, respectively, which represented a substantial deceleration. As with PPI, this was largely due to a favorable comparative vs. the high point a year ago. (This means that trailing 12-month CPI may turn upward again in a few months.) Nevertheless, it pleased financial markets, as it lowered the potential of several further rate hikes (or at least beyond late July perhaps). While energy prices (like gasoline) falling over -28% on the year helped the headline figure, other segments have contributed to a greater degree recently, such a drop in used car prices and airline fares. As CPI is calculated in a myriad ways, 'all items less shelter' from June to June is only up 0.7%, while 'all items less food and shelter' takes the past year into -0.6% deflation oddly enough. This trend has been occurring globally, in both developed and emerging economies, although core prices are taking far longer to normalize.

(+) **Import prices** in June fell -0.2% overall, and -0.3% on an ex-petroleum basis, each down a tenth further than forecast. Prices fell broadly, with the largest drops in industrial supplies, food/beverages, and consumer goods ex-autos. This 'imported' inflation decline was generally in keeping with disinflation elsewhere, and remains good news.

(+) The preliminary July **Univ. of Michigan index of consumer sentiment** rose a sharp 8.2 points to 72.6, well above the 65.5 expected, to the highest level in nearly two years. Assessments of both current conditions as well as future expectations saw gains of similar magnitude. Inflation expectations for the coming year rose a tenth to 3.4%, contrary to expectations of a decline; those for the next 5-10 years also ticked up a tenth to 3.1%. Underlying commentary pointed to broad-based improvement in consumer moods across mid- to higher-income groups, due to improved inflation numbers and an ongoing decent labor market.

(0) **Initial jobless claims** for the Jul. 8 ending week fell by -12k to 237k, below the 250k median forecast. Continuing claims for the Jul. 1 week rose by 11k to 1.729 mil., a bit above the 1.720 mil. expected. The offset points to little net change in conditions, with unusual distortions continuing in the data, including potential fraud in OH and MN (with 26k in new claims in the two states alone).

Market Notes

Period ending 7/14/2023	1 Week %	YTD %
DJIA	2.29	5.30
S&P 500	2.44	18.41
NASDAQ	3.32	35.47
Russell 2000	3.58	10.55
MSCI-EAFE	4.87	14.71
MSCI-EM	4.95	9.38
Bloomberg U.S. Aggregate	1.51	2.29

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
7/7/2023	5.46	4.94	4.35	4.06	4.05
7/14/2023	5.49	4.74	4.04	3.83	3.93

In the midst of slower summer volume, U.S. stocks gained last week, as falling consumer and producer inflation boosted investor spirits. The key factor, of course, is the impact on the economy, as well as the lower probability of the Fed's continued hawkish rate hike path. Every sector ended in the positive last week, with communications and consumer discretionary leading the way, and energy and consumer staples coming up in the rear, with lesser gains. Real estate fared positively, up nearly 3%, as interest rates fell back. Earnings season began Friday, with several large banks showing mixed results for the quarter.

The NASDAQ announced a 'special rebalance' of the tech- and communications-heavy NASDAQ 100 index, due to the largest seven companies representing over 50% of the index's market cap. This is only the third time for such an event, with the prior two in 1998 and 2011. This is set to take place July 24, to 'cap' largest holdings at certain percentage level, and dispersing percentages throughout the rest of the index. Specifically, per their index methodology, stocks comprising 4.5% of the index can be capped so that the group remains at or below 48% of the total index. This preserves diversification in the index, and also, from a practical standpoint for ETFs that track that index (such as QQQ), helps avoid regulatory problems with over-concentration. Despite its common usage, the NASDAQ 100 has never been a complete solution as a diversified U.S. stock market index. In fact, per Morningstar, 51% of the index is dedicated to information technology alone, with nearly 85% being related to tech, communications, and consumer discretionary stocks—a significant 'growth' tilt to say the least.

Foreign stocks outperformed U.S. on the week, with strength in Europe offset by weaker Japan results. A -2% decline in the U.S. dollar was helpful in U.S.-investor terms. In emerging markets, stocks in China, Korea, and Taiwan all saw strong weeks, helped by a variety of Chinese support measures aimed at stemming damage from the property sector, which could be holding back consumers.

Bond prices gained last week, as interest rates declined, along with lower CPI and PPI readings, with the lowered expectations for the tight Fed policy. High yield slightly outperformed other investment-grade groups. Foreign bonds gained several percent in developed and emerging markets, helped by the dollar's decline.

Commodities rose across the board, helped by the drop in the dollar. Industrial metals and precious metals were each up over 4%. Crude oil prices rose 2% last week to over $75/barrel.

Have a good week.

Ryan M. Long, CFA

Director of Investments
FocusPoint Solutions, Inc.

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.