Summary

Economic news for the week included the U.S. Federal Reserve raising interest rates by another quarter percent, Q2 GDP growth that came in stronger than expected, as did durable goods orders and consumer sentiment.

Global equities gained for the week, with positive economic news and improved inflation readings. Bonds were generally negative, as interest rates ticked higher along with central bank hawkishness about potential future hikes. Commodities were mixed, with oil prices up 5%.

Economic Notes

(0) The **FOMC** meeting ended as expected, with a 0.25% rate hike. In fact, the new 5.25-5.50% level is the highest since early 2001. Policy and commentary was unchanged, as it appears the Fed remains in a place of evaluating the cumulative effects of rate hikes on the economy. Later, Fed Chair Powell noted that they're coming to a place where there are 'risks on both sides,' a sentiment which was taken positively by markets as a clue the rate hiking regime is over for the time being, or soon would be. Also, the FOMC was still expecting a slowdown in late 2023, but is no longer forecasting a recession. Each upcoming meeting was described as 'live,' implying there is no longer a set rate path, in contrast to the last year, when a series of hikes was laid out in advance. Inflation remains the primary sticking point, with risk of stickiness in increases outweighing everything else. On that front, the committee pushed out hopes of achieving 2% PCE inflation levels to 2025.

(+) The initial **U.S. GDP** growth report for Q2 came in at a pace of 2.4%, above the expected 1.8% reading. Personal consumption rose an annualized 1.6% (accounting for 1.1% of the total figure), the vast bulk of which were in services, which gained 2.1% compared to goods rising only 0.7%. Investment in equipment reversed course by rising 11% (contributing 0.5% to GDP), along with structures up 10% (contributing 0.3%). Government consumption rose 2.6%, contributing 0.5% to the total figure. In the few negative readings in the report, net exports were down slightly, along with drops in residential fixed investment (down -4%, taking a few tenths off of GDP), and motor vehicle production specifically. Overall growth was a lot stronger than many economists expected, although the most recent Atlanta GDPNow reading this week was spot on in its estimate for Q2. The GDP price index rose an annualized 2.2% in Q2, nearly a percent below expectations, which was also good news.

The **Atlanta Fed's GDPNow** initial measure for Q3 has come in at 3.5%. Granted, this is early but certainly robust, with over 2% of the gain from consumer spending and contributions from inventories and government spending, while residential investment remains the only negative contributor, albeit small. An anecdotal assessment of Q3 estimates from a variety of private firms is currently ranging from around 1.0-1.5%.

(+) **Personal income** for June rose 0.3%, below the 0.5% level expected, led by a 0.6% rise in wage/salary income. **Personal spending** rose 0.5%, a tenth stronger than expected, and was led by strength in goods spending for a change, as opposed to minimal change in spending on services. The personal savings rate fell -0.3% from last month to 4.3%.

The June PCE price index rose just under 0.2% on both a headline and core level (ex-food and energy), each in line with expectations. Components were in keeping with trend, as services prices rose 0.3%, offset a bit by a -0.1% decline in goods prices. On a year-over-year basis, the indexes decelerated to 3.0% and 4.1% for headline and core, respectively. For the year, services prices were up 4.9%, while those for goods fell -0.6%, driven by a -19% drop in energy. As the preferred inflation measures for the Fed, this represented good news, as reflected in the positive response in financial markets.

(+/0) **Durable goods orders** for June rose 4.7% in June, far stronger than the 1.3% median forecast. Gains were led by commercial aircraft, up nearly 70%, but which tend to be lumpy on a month-to-month basis. In addition, metal products, electrical equipment, and computers/electronics saw gains. Excluding transportation, orders rose 0.6%, which surpassed expectations of only 0.1%. Core capital goods orders rose 0.2%, while core goods shipments were unchanged for the month. Year-over-year, durable goods orders are up 9% overall, and up a half-percent when excluding transportation. However, when removing implied inflation on the producer side, core orders are therefore negative in real terms.

(+) The **S&P Case-Shiller 20-city home price index** rose 1.0% in May, surpassing the 0.7% expected increase. In May, all but one of the 20 cities in the index saw gains, led by Cleveland, Boston, and New York, each up 1.3-1.8%; Phoenix prices saw a slight decline at a tenth of a percent. Year-over-year, the national index experienced a slight decline of -1.7%, although prices have tightened to just a percent below their peak of last summer.

(+) The **FHFA House Price Index** rose 0.7% on a seasonally-adjusted basis in May, matching the gain in the prior month. The Pacific region led with a rise of under 2%, while New England suffered a -0.5% decline. On a year-over-year basis from May 2022 to May 2023, prices are up 2.8%, with the rate of change mixed by region—the East Coast and Midwest experienced gains, while the Pacific and Mountain states fell back. (As a flashback to conditions from a year ago, the May 2021 to May 2022 year-over-year gain was 18%.) In contrast to the more focused Case-Shiller data, the FHFA includes 400 cities in all 50 states, with a history going back to the 1970's, so is a much broader and deeper measure of transaction activity. Home prices have continued to buck the trend of what usually happens with higher interest rates and economic slowing, of course caused by the extreme lack of inventory. Accordingly, housing affordability remains low in many key urban areas, especially on the coasts.

(0/-) **New home sales** in June fell by -2.5% to a seasonally-adjusted annualized rate of 697k units, slightly better than the -5.0% median forecast, and a reversal of gains the prior month, including downward revisions. Regionally, the West and Midwest saw declines of 20-25k, while the South saw gains of nearly 20k. On a year-over-year basis, new home sales remain up 24% from last year, due to continued robust demand based on a dearth of existing homes for sale. The median new home price came in at $415,400, up 4% from last year. The months' supply of new homes ticked up by 0.2 to 7.4, far better than the figures for existing home sales, due to an increase in inventories and slowing in sales, as affordability remains an issue.

(+) **Pending home sales** rose 0.3%, versus median expectations of a -0.5% decline. The year-over-year sales growth 'improved' to a -15% decline. By region, the Midwest saw a gain of 4%, offset by declines of about a percent each in the West and South. This bodes somewhat positively for forward-looking existing home sales.

(+) The Conference Board **index of consumer confidence** for July rose by 6.9 points to 117.0, above the 112.0 level expected. Assessments of present conditions rose nearly 5 points, while expectations for the future rose over 8. The labor differential gained 4 as well, noting that jobs are more plentiful than hard to get. Generally, confidence is a byproduct of strong employment, reasonable to falling gasoline prices, as well as a positive stock market—all of which have been in consumers' favor recently.

(+) The final July **Univ. of Michigan index of consumer sentiment** rose by 7.2 points to a level of 71.6, a point below the 72.6 level expected. Assessments of current conditions and future expectations each rose to similar positive degrees, with stability in job markets and lower inflation. Assessments of inflation for the next year ticked up a tenth to 3.4%, while that of the next 5-10 years was unchanged at 3.0%.

(+) **Initial jobless claims** for the Jul. 22 ending week fell by -7k to 221k, below the median forecast calling for 235k. Continuing claims for the Jul. 15 week fell by -59k to 1.690 mil., well below the 1.750 mil. level expected. Recent distortions in several states appeared to remain in the national data (OH and MN totaling 29k claims), while removing these brought levels back to those earlier in the year. Seasonal effects also remain

somewhat problematic it seems. All that aside, claims remain relatively contained to what one might expect prior to a more severe slowdown.

Market Notes

Period ending 7/28/2023	1 Week %	YTD %
DJIA	0.66	8.24
S&P 500	1.03	20.47
NASDAQ	2.03	37.43
Russell 2000	1.09	13.45
MSCI-EAFE	0.92	15.12
MSCI-EM	2.85	11.02
Bloomberg U.S. Aggregate	-0.40	1.89

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
7/21/2023	5.50	4.82	4.09	3.84	3.91
7/28/2023	5.52	4.87	4.18	3.96	4.03

U.S. stocks ended the week mixed to higher, with a bit uncertainty in direction following the Fed's decision to raise rates, strong U.S. GDP growth, durable goods and consumer sentiment results that defy worries about a potential recession, as well as decent corporate earnings and falling PCE inflation. The S&P 500 has risen by 30% from a low point in October, now well above the closely-watched 50-day and 200-day moving averages. From a technical standpoint, this represents a bull market. However, other technical signals, such as near-term relative strength, point to a potentially overbought condition. This isn't unusual, nor would be a short-term pullback at this point (just to keep expectations in check).

By sector, communications led the way, up 7%, with solid contributions from Alphabet and Meta Platforms based on earnings results, followed by gains in materials and energy. Typical defensive sectors utilities and health care lagged with negative returns. Real estate also fell by -2% along with higher interest rates.

In regard to Q2 earnings, 50% of S&P firms have now reported, with 80% of these showing a surprise, and nearly two-thirds showing a surprise in revenues, per FactSet. The index-wide year-over-year blended earnings change (the companies that have reported plus upcoming estimates) has worsened a bit from -7.0% at quarter-end to -7.3%. These included upgrades for consumer discretionary, communications, and industrials, while energy, materials, and health care have fared worse than first expected. 'Growth' sectors have tended to be the best performers, while valuations have certainly reflected those strong fundamentals. As might be expected, companies with over 50% of their revenues originating from the U.S. have actually seen positive earnings growth year-over-year, while companies with the higher proportion to international growth have seen blended earnings fall by -21%. The forward P/E on the S&P 500 has risen to 19.4x now, which is above average compared the 17.4x of the last decade, but also a reflection on the decline in inflation over the past several months. Lower inflation tends to boost earnings ratios higher, all else equal.

Foreign stocks eked out small gains on the week in developed markets, while emerging markets rose sharply. As in the U.S., the ECB raised their key interest rate by 0.25% to 3.75%, also the highest level in decades. Here, too, inflation concerns have driven policy higher, despite more concern over industrial slowing, particularly in Germany. The path in Europe between growth and recession is far narrower, with recent GDP data showing a few tenths on either side of zero. The Bank of Japan was also in the news, as they relaxed their 10-year interest rate target band, at 0.0% +/- 0.5%, referring to it more as a looser reference point than a limitation (implying they could allow long-term rates to gradually rise). This was largely due to their strict policy over the past

decade to keep rates well contained, although higher inflation has added pressure to this last country to keep rates at ultra-low levels.

Emerging markets were led by Chinese stocks rising over 6%, in response to signals of further government support to bolster the economy, including the troubled real estate sector. Chile was the first emerging market to cut rates last week, by 1.00% to 10.25%, as inflation has already fallen by half to 7.6%. By itself, this normally wouldn't be newsworthy, but Chile is part of a group of emerging market nations in Latin America and Eastern Europe which were the first to hike starting in summer 2021, but have since begun the process of potentially reversing course. Interestingly, most of these nations are not in or near full recession necessarily, aside from some labor stress, which would often coincide with rate cuts.

Bonds declined last week broadly, as interest rates ticked higher across the yield curve. Corporate credit, particularly high yield, fared better than governments; floating rate bank loans ended in the positive. Developed market foreign bonds were held back by a stronger U.S. dollar, while emerging market debt prices rose along with pro-risk sentiment.

Commodities were led by gains in energy and industrial metals, offsetting weaker prices for agriculture and precious metals. Crude oil rose over 4% last week to $81/barrel, along with a falling rig count and hopes for Chinese stimulus. This offset a drop in natural gas prices.

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, Federal Housing Finance Agency, 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.

The information above has been obtained from sources considered reliable, but no representation is made as to its completeness, accuracy or timeliness. All information and opinions expressed are subject to change without notice. Information provided in this report is not intended to be, and should not be construed as, investment, legal or tax advice; and does not constitute an offer, or a solicitation of any offer, to buy or sell any security, investment or other product. FocusPoint Solutions, Inc. is a registered investment advisor.

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