Summary

Economic data for the week included a decline in durable goods orders, while housing data was mixed, with a drop in existing home sales offset by a rise in new home sales.

Equities rose globally as economic growth continued to stay non-negative, along with hopes for an eventual peak in interest rates. Bonds fared positively in the U.S. as yields fell back from prior-week highs. Commodities gained due to specific supply/demand dynamics and continued waning recession fears.

Economic Notes

(-) **Durable goods orders** fell -5.2% in July, compared to a less severe -4.0% declined expected, which reversed four straight months of increases. Removing transportation, where commercial aircraft fell by a sharp -44% (reversing a strong gain in June—that series being extremely volatile), goods orders rose 0.5%, while core capital goods orders excluding aircraft rose 0.1%. Motor vehicles/parts as well as communications equipment each saw positive gains, however. Core capital goods shipments were unchanged on a total level. Over the trailing 12 months, headline durable goods orders are up 4%, while those excluding transportation are up just over 1%. After inflation, of course, these deteriorate to either flat or negative in real terms, which again indicates lack of dramatic good or bad news for the economy.

(-) **Existing home sales** for July fell -2.2% to a seasonally-adjusted annualized rate of 4.07 mil. units, below expectations of only a -0.2% drop. By type, single-family sales fell by -2%, while condos/co-ops declined by over -4%. By region, sales in the Northeast and West rose several percent, while they declined in the Midwest and South. The median existing home sales price is now up 2% from last year to $406,700—with over-$400k national average values having become the new norm, largely led by the West, with a median price of $610,500 (which is two times that of the Midwest's $304,600). This was the slowest July growth pace since 2010, with months' supply ticking up a bit but remaining at a very low historical level of 3.3 (about half of the level seen as 'normal'). Sales are down -17% over the past year.

(+) **New home sales** for July rose by 4.4% to a seasonally-adjusted annualized rate of 714k units, above the median forecast calling for 0.9%, in addition to June sales being revised lower. Regionally, the West and Midwest saw gains of 25-35k, while the South saw the largest declines. New home sales are up 32% from last year, as builders race to pick up needed slack. The months' supply of new homes continued to tick lower, another several tenths for the month to 7.3, which points to better conditions for buyers than sales for existing homes. The median new home sales price is down -9% from last year to $436,700.

The bifurcation between existing home sales and new home sales has only widened over the past 12 months. On the existing home side, the NAR noted the continued pressures of low inventories and high mortgage rates—creating an 'unfavorable' buying environment, to say the least—that shows no signs of easing soon. New homes are the only obvious outlet to the housing shortage problem, but these can't be completed fast enough. Another near-term safety valve is that the large volume of multi-family building activity has started to pressure rents lower. Naturally, this plays into consumer inflation stats as well, with a lag.

(+) **Initial jobless claims** for the Aug. 19 ending week fell by -10k to 230k, below the 240k forecast. Continuing claims for the Aug. 12 week fell by -9k to 1.702 mil., below the 1.708 mil. expected. The largest claims increases originated in VA, IA, IL, and HI (the latter driven upward likely by the Maui wildfires), while CA and TX saw the largest declines. In broadly looking at non-seasonally-adjusted initial claims over the past year, levels have steadily fallen around the 200k range, give or take a few 10k up or down. Little evidence shows any substantial movement upward, which would be indicative of a deteriorating labor environment.

In other labor news, the U.S. Bureau of Labor Statistics released a preliminary estimate for upcoming benchmark revisions to its closely-watched monthly **nonfarm payroll report**. These are set for the year ending March 2023, and look to downwardly-revise employment by -300k to -350k for that 12-month period, or about 25-30k per month. This isn't earth-shattering, but does show labor conditions slowing more and at an earlier pace than was assumed. It also is a reminder of the lack of precision and high degree of error and later revision in labor market measurement.

During the week, concerns over potentially hawkish remarks from Federal Reserve Chair Powell from the **Jackson Hole Economic Symposium** had pulled down sentiment a bit. This was largely based on the negative response from last year, when hopes for a rapid policy pivot were dashed. This year, though, the short Friday opening comments noted that the FOMC was prepared to raise rates further as needed to bring inflation down, although it seemed to be expressed at a lower degree of urgency than prior public comments. The current target of 2% inflation was reiterated as the end goal, with current interest rate levels described as 'restrictive,' but Powell noted the Fed will 'proceed carefully,' being cautious in laying out the risks of doing either too much or too little. This was in light of both the economy and the labor market staying stronger than expected lately. At the same time, he noted that the neutral rate (the 'ideal' rate, where monetary policy is neither tight nor loose) can't be identified with certainty, although that's always the case. One could watch the movement in stock index prices in real time to gauge how accepting markets were to the sentences uttered. All-in-all, it appeared markets nodded in approval of the tone to some degree, although not without some wavering. From a consensus standpoint, this appears to be an acknowledgement that the chances of further rate cuts have fallen, although these assumptions can change as quickly as a new Fed member speech.

Market Notes

Period ending 8/25/2023	**1 Week %**	**YTD %**
DJIA	-0.42	5.08
S&P 500	0.84	15.99
NASDAQ	2.27	30.59
Russell 2000	-0.29	6.27
MSCI-EAFE	-0.18	7.87
MSCI-EM	0.74	3.56
Bloomberg U.S. Aggregate	0.28	0.41

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
8/18/2023	5.55	4.92	4.38	4.26	4.38
8/25/2023	5.61	5.03	4.44	4.25	4.30

U.S. stocks gained on the week, with mixed economic results and subtle positives, such as UPS workers approving a new 5-year labor deal, although autoworkers have yet to do the same. Positive market response to Fed Chair Powell's non-controversial opening comments to the Fed's Jackson Hole conference also helped sentiment. For now, the financial market response seems to continue to be all about yields. By sector, technology led the way, up over 2% (helped by NVIDIA's results), followed by gains in consumer discretionary and communications; laggards included energy and consumer staples. Real estate also gained three-quarters of a percent for the week.

Foreign stocks were mixed, with gains in Japan, moderate expansion in Europe, and flattish U.K. returns. Emerging markets outperformed developed, due to areas outside of China, such as Brazil, Turkey, South Africa, and Korea. Interestingly, on the negative side, services PMI's have been softening in Europe, turning contractionary (below 50) by some measures. This is one of the two possible outcomes that could turn positive global economic growth more recessionary—services joining manufacturing in contractionary territory (the other scenario was manufacturing deteriorating even further, pulling down total activity to the recessionary point). Of course, the ‘soft landing’ thesis is based on either manufacturing bottoming and even turning around sooner than later, or, as has been the case throughout 2023, robust services expansion remaining strong enough to keep the global economy plugging along without a hiccup.

Bonds were mixed as yields were mixed across the yield curve—rising on the short end and falling on the long end. Bullish equity sentiment also helped push corporates higher, in both investment-grade and high yield, as well as bank loans. Developed market foreign bonds fell along with a stronger dollar, while emerging market bonds rallied with sentiment toward risk-taking.

Commodities gained across the board to varying degrees last week, despite a stronger dollar, with industrial metals and precious metals outperforming energy and agriculture. Crude oil declined a slight -1% last week to $80/barrel, as did natural gas prices, with lower inventories offset by a labor deal positively affecting Australian exports.

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.