Summary

Economic data for the week included gains in retail sales and industrial production, as well as for several regional manufacturing indicators. However, the index of leading economic indicators turned downward again, as did existing home sales and housing starts.

Equities fell around the world last week, as higher-for-longer expectations for interest rates and geopolitical conflict in the Middle East put a damper on the mood. Bond prices also fell, being negatively impacted by the rise in rates. Commodities were mixed, with metals prices sharply up, and oil down as geopolitical tensions eased by the end of the week.

Economic Notes

(-) The Conference Board's **Index of Leading Economic Indicators** for March fell -0.3%—a bit beyond the expected decline of -0.1% and reversing course from February's 0.2% gain. Over the last six months, the LEI fell by -2.2%, which was a lesser drop from the -3.4% decline over the prior six-month stretch ending in Sep. 2023. Per the Conference Board, negative contributions coming from the inverted yield curve, consumer sentiment about business conditions, and building permits drove the index lower; these were offset a bit on the positive side by higher stock prices, credit, and weekly manufacturing hours. They noted that the index points to a 'fragile—even if not recessionary—outlook' for the economy looking forward, with risks of rising consumer debt, high interest rates, and persistent inflation adding pressure towards a cooling of growth in Q2 and Q3. That assessment appears to sum up the thoughts of many, with expectations of decelerating growth this year, although not expected to lead to economic catastrophe.

(+) **Retail sales** rose 0.7% in March, a few tenths lower than the prior month's pace, but exceeded the 0.4% increase expected, and included upward revisions for prior months. Removing the more volatile components of autos, building materials, and gasoline (the latter of which rose 2%), core sales rose 1.1%, beating the 0.4% expected. Sales increased in over half of the primary categories, led by nearly 3% in non-store/internet, miscellaneous, general merch, food/beverage, and personal care. However, several other segments declined, including sporting goods, clothing, and electronics. Over the past year, retail sales are up 4%, although when continued-sticky inflation is accounted for, the 'real' after-inflation sales number is only up around a half-percent, with little signs of a trend in one direction or the other in recent months. Questions continue about how long the healthy consumer buying environment will be sustained, now that excess pandemic savings appear to be fading.

(0) **Industrial production** rose 0.4% in March, meeting consensus expectations. The manufacturing component rose a half-percent, in addition to a significant upward revision for the prior month, led by a 5% rise in auto assemblies, coupled with gains in high-tech equipment that continue its streak of leadership. Utilities production rose 2.1%, a category that tends to be weather-related, offsetting a -1% drop in mining, which includes petroleum. Overall, industrial production is unchanged on a year-over-year basis, improving from negative momentum the prior month. **Capacity utilization** ticked up by 0.2% to 78.4%.

(0/-) The New York Fed **Empire manufacturing index** rose 6.6 points in April to a still-contractionary -14.3 level, not quite reaching the median forecast of -5.2. New orders and employment ticked up a bit, but remained deep in contraction, while shipments fell back further into contraction. Prices paid rose again by several points, further into expansion. The future 6-month business conditions index fell by nearly -5 points but continued to expand. This series has been especially volatile since the pandemic, which could be related to seasonal adjustment issues, but continues to take away from its usefulness lately.

(+) The **Philadelphia Fed manufacturing index** rose 12.3 points in April to 15.5, exceeding the expected slight decline to 2.0. Underlying components included new orders rising 7 points further into expansion, as well as similar gains for shipments. Current employment ticked down a point, further into contraction, although expectations for employment over the next six months improved. Prices paid also rose sharply further into expansion compared to last month. The business conditions index for the next 6 months fell by -4 points but remained at a solidly-expansionary 34 level.

(-) **Existing home sales** in March fell by -4.3% to a seasonally-adjusted annualized rate of 4.19 mil. units, just beyond the expected decline of -4.1%, and offsetting February's strong gain of nearly 10%. Declines for single-family and condos/co-ops were similar, while gains in the Northeast region of 4% were offset by declines everywhere else, notably in the West at -8%. Nationally, sales remain down -4% on a year-over-year basis. The median sales price for existing homes rose 4.8% on a year-over-year basis to $393,500. Inventory rose a bit to 3.2 months' supply, which remains tight compared to the NAR's bogey of 5.0 representing a 'normal' housing market. In short, little has changed on the housing front, with Freddie Mac noting that the average 30-year mortgage rate rose further to 6.9%, up from 6.3% last year at this time, in keeping with higher 10-year Treasury yields. These household budget pressures have continued to be offset by low housing supply, keeping prices elevated and dampening activity with current homeowners enjoying low mortgage rates reluctant to move. Under that backdrop, low existing sales activity isn't surprising, with the upcoming spring/summer high season likely to provide more clarity than winter has.

(-) **Housing starts** fell -14.7% in March to a seasonally-adjusted average annualized pace of 1.321 mil. units, in a reversal of the strong prior month including revisions upward, and below the -2.4% decline expected. Both single-family and multi-family declined, with the latter suffering worse, down -22% for the month to the lowest production level in years (aside from the pandemic). Regionally, the West saw gains while all other areas experienced declines of around -20% or more, which allude to these being potentially weather-related this time of year. Overall, starts are down -4% on net over the last 12 months, split more dramatically than usual between single-family up 21% and multi-family down -44% as the production boom for the latter has reversed. **Building permits** fell -4.3% in the month to a seasonally-adjusted average annual figure of 1.458 mil., also below the expected decline of -0.9%. While single-family permits fell, multi-family fared worse here as well, down -6%. It appears that more builders than average have been providing sales incentives, with only a small fraction cutting prices to stimulate demand.

(0/+) The **NAHB housing market index** for April was unchanged at 51, in keeping with expectations and continuing at a pace just above neutral into a slight expansion. Current sales ticked higher to the higher 50s level, prospective buyer traffic rose a point but remained deeply in contraction, while future sales fell back a few points, but remained solidly in expansion. Regionally, the Northeast and West saw gains, while the South ticked down a bit, with most regions continuing to hover around the neutral level. Homebuilder sentiment is loosely related to expectations for housing conditions looking forward, with summer as the obvious high season each year, but the mood can change quickly, especially in a more uncertain interest rate environment.

(0) **Initial jobless claims** for the Apr. 13 ending week were unchanged at 212k, below a slight expected rise to 215k. Continuing claims for the Apr. 6 week rose by 2k to 1.812 mil., below expectations of a greater increase to 1.818 mil. For the most part, the largest states accounted for the largest changes, with no unusual outliers as of late pointing to broader layoff activity.

Market Notes

Period ending 4/19/2024	1 Week %	YTD %
DJIA	0.05	1.37
S&P 500	-3.04	4.58
NASDAQ	-5.52	2.01
Russell 2000	-2.76	-3.54
MSCI-EAFE	-2.29	0.83
MSCI-EM	-3.58	-1.36
Bloomberg U.S. Aggregate	-0.61	-3.11

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2023	5.40	4.23	3.84	3.88	4.03
4/12/2024	5.45	4.88	4.54	4.50	4.61
4/19/2024	5.45	4.97	4.66	4.62	4.72

U.S. stocks fell back for the third straight week, as the mood soured over concern around rising Middle East tensions and possibly higher-for-longer interest rates. By Friday, the measured response of Israel toward Iran appeared to calm markets a bit, after initially fearing a more robust escalation. Fed chair Powell implied that inflation has indeed been stickier than expected, noted by the comment, "It's likely to take longer than expected to achieve that confidence," and it may take the Fed longer than expected to hit its target (which was no surprise to markets). However, this was taken as another sign that the number of cuts assumed for this year may need to be rethought. Additionally, the New York Fed president implied that higher rates could be considered "to achieve their goals" if the data warranted that, while the Atlanta Fed president indicated policymakers wouldn't be able to cut until year-end. Markets are obviously especially sensitive to interest rate policy semantics at this point. A variety of well-watched economists/strategies have extended their timeline for the first Fed cut from June to July or even September, but not all have.

By sector, defensive utilities and consumer staples led the way with gains of nearly 2%, while technology underperformed by the greatest degree (down over -7%, as NVIDIA corrected by nearly -15% after weaker forward guidance), followed by consumer discretionary and communications. Tesla pulled back by nearly -15% as well, with recently-sluggish sales numbers, and the subsequent announcement of a layoff consisting of 10% of its workforce (14,000 employees). Real estate also fell over -3% along with the impact from higher rates. Earnings for Q1 continued to roll in, with nearly 15% of S&P 500 companies now having reported, per FactSet. Three-quarters of these companies have reported an earnings surprise with nearly 60% with a positive revenue surprise. The blended (actual plus expected) earnings growth rate for the quarter has fallen back a bit to 0.5% year-over-year, which consists of five of the 'Magnificent 7' companies (NVIDIA, Amazon, Meta, Alphabet, and Microsoft) expected to see earnings growth of 64%, while the other 495 members of the S&P seeing declines of -6%. However, there is a lot of data left to be reported.

From a technical standpoint, the S&P is down -5% from its late-March peak, and fell below its 50-day moving average for the first time since this run of strength began last October, although it remains well above the 200-day moving average, the latter seen as a more classic indicator of intermediate-term market chart strength. Although it never feels like it at the time, especially after a strong upward move, market declines of -5% or so have historically occurred several times a year.

Foreign stocks declined by fared better than U.S. stocks, particularly in the Eurozone and U.K. Inflation in the U.K. improved to 3.2%, but not as low as expected, providing another catalyst for higher global yields. However, the ECB reiterated that June continues to be a likely target for a policy easing start date. Also, the IMF has raised its global growth forecast for 2024 from 2.9% to 3.2%—largely due to robust conditions in the U.S. Emerging market stocks were mixed with gains in China, on the heels of better manufacturing results and

stronger-than-expected 5.3% GDP, offset by declines in the rest of Asia and Mexico. Part of this is related to effects from the continued-strong U.S. dollar, due to still-likely-to-stay-favorable interest rate differentials versus Europe and Japan as markets attempt to hash out timing of central bank moves.

Bond prices fell back as interest rates ticked higher, along with the gnawing feeling about policy rates staying higher for longer. U.S. Treasuries outperformed credit, along with negative equity sentiment for the week. The exception was floating rate bank loans, which earned positive returns along with the rising rates. Foreign bonds were generally held back by a stronger U.S. dollar. The 10-year Treasury note has risen nearly a percentage point year-to-date, now around 4.7%, as bond markets have also internalized the Fed's higher-for-longer messaging. In fact, the weakness in the yen has led to ongoing speculation of possible government intervention to provide some support.

Commodities were mixed last week, with sharp gains in industrial and precious metals offset by lower energy prices. Crude oil fell over -3% last week to $82/barrel. Recent oil prices movements have been unsurprisingly tied to the Israel-Iran conflict; however, the overall impact has been fairly muted after the constrained response on both sides, at least through last week, as well as OPEC spare capacity currently that is thought to provide a better buffer against any reductions (or fears of reductions) in production.

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, Moody's, 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.