

Monthly Newsletter

May 2023

Monthly Market Recap

April saw indexes move modestly higher with the Dow gaining 2.6%, the S&P advancing 1.6% and the NASDAQ climbing 0.1%. YTD, the Dow is up 3.5%, S&P 500 9.2%, and an impressive 17.1% for the Technology heavy NASDAQ.

Earnings season is off to a better than feared start. To date, 53% of S&P companies have reported results, with 79% of companies reporting a positive earnings surprise and 74% of companies with a better than forecasted revenue beat. So far, the blended earnings decline is 3.7%, which is above market expectations of a loss of 6.7%. Five sectors are experiencing year-over-year growth, led by the Consumer Discretionary sector at 47.8%. While some analysts (the most vocal being Mike Wilson at Morgan Stanley) were once again projecting earnings to be disastrous for Q1, we felt such hyperbole was unwarranted and a modest slowdown was a more likely outcome.

2023 Q1 GDP came in at 1.1%, which was below analysts' expectations, mainly due to a deep decline in inventory accumulation, as well as a slowing in fixed business investments. However, consumer growth was up sharply at 3.7%. Taken together, the market rallied on this news last Thursday. In addition, the labor market added 236,000 jobs in March and the unemployment rate declined to 3.5%, both fairly encouraging signs.

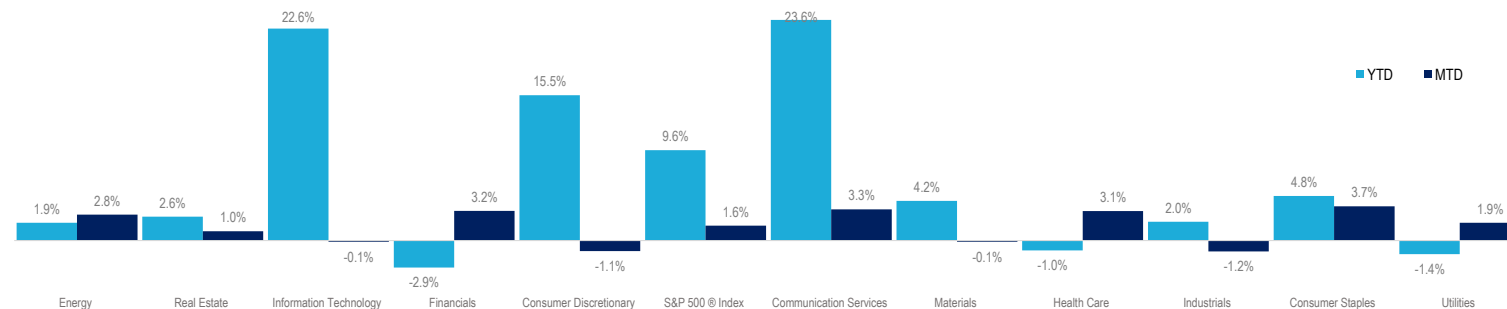
Overall, despite somewhat mixed economic and earnings data, the economy continues to remain resilient, which is a theme we've been focusing on for many months now. From our perspective, we look to the strength of the U.S. household balance sheet as an encouraging sign for bullish investors who believe that a modest slowdown (which may already be priced into markets) doesn't need to derail equities from climbing higher, which has happened since the start of 2023. The ratio of liabilities to net worth for the U.S. household has declined 50% since the 2008 Financial Crisis and leverage is at levels not seen since the early 1980's. While the risk to a recession is elevated, consumers are currently in a very good starting point to handle a slowdown.

CPI, rose 0.1% for the month against estimates of 0.2%, and 5% from a year ago versus the consensus estimate of 5.1%. Producer Price Index (PPI) for the month declined 0.5%, with annualized price increases now at only 2.7%. Producer prices are often looked at as an early indicator of how prices may end up landing on shelves for consumers. Overall, inflation continues to fall, and we expect to continue to see a furthering of this trend in 2023, specifically with Services moderating rapidly (Goods inflation normalized in 2022). The Fed's 2% benchmark target is very achievable in our view in the coming months with continued flat readings or even declines. However, a major risk to this outcome is that Housing (which is a large and sticky component of CPI at 40%) is beginning to recover. The traffic of prospective homebuyers is starting to improve, likely driven by both employment and wage growth, as well as excess savings. If this trend continues, CPI returning to the Fed's 2% target will remain challenged.

While we remain optimistic that a more dovish central bank policy will provide support for equities to move higher, as historically has been the case, there are market risks (as there always are). Bankruptcies are starting to rise (which is not at all surprising with the Fed's stated goal of cooling down the economy) and credit conditions are tightening in the wake of the SVB fallout. In March, the M2 Money Supply fell year-over-year by 4.1%, which is the most dramatic change since the 1960's. Commercial real estate still poses a threat to the markets, as does regional banks. Over the weekend, First Republic assets were sold to J.P. Morgan.

The FOMC meets this week and futures markets are pricing in a nearly 90% probability that the Fed will raise the benchmark rate another 25 basis points and then pause. Also, as it stands now, interest rate traders are assigning a 96% probability that there will be at least one interest rate cut by December of 2023, with multiple cuts a strong possibility. We will be watching for any signals from the Fed and how that impacts our base case for the remainder of the year.

	Index Return %	
Equities	MTD	YTD
S&P 500	1.6%	9.2%
Russell 3000	1.1%	8.3%
Nasdaq	0.1%	17.1%
Dow Jones	2.6%	3.5%
Fixed Income		
US Aggregate	0.6%	3.6%
US Corporate High Yield	1.0%	4.6%
Economic Metrics		
	Rate %	
	Mar-23	
US Unemployment Rate	3.50%	
US Inflation Rate	4.99%	
Commodities		
	Levels	
	Mar-23	Apr-23
Oil (WTI)	75.68	78.64
Gold	1,979.70	1,973.70
DowJ. Commodity Index	1,003.67	989.24
Interest Rates		
	Rate %	
	Mar-23	Apr-23
10 Year Treasury Rate	3.48%	3.53%
30 Year Treasury Rate	3.67%	3.76%
30 Year Mortgage Rate	6.32%	6.43%
US Corp. AAA Effective Yield	4.32%	4.36%
All numbers reported are as of April 30, 2023		
Major Economic Events		Date
Employment Situation		5-May
Inflation Rate		10-May
FOMC Meeting		3-May



Sources

S&P 500 Performance	https://ycharts.com/indices/%5ESPXTR/level
Russell 3000 Performance	https://ycharts.com/indices/%5ERUATR/level
Nasdaq Performance	https://ycharts.com/indices/%5ENA100TR/level
Dow Jones Performance	https://ycharts.com/indices/%5EDJITR
US Aggregate Performance	https://ycharts.com/indices/%5EBBUSATR
US Corporate High Yield Performance	https://ycharts.com/indices/%5EBBUSCOHYTR
US Unemployment Rate	https://ycharts.com/indicators/us_unemployment_rate
US Inflation Rate	https://ycharts.com/indicators/us_inflation_rate
10 Year Treasury Rate	https://ycharts.com/indicators/10_year_treasury_rate
30 Year Treasury Rate	https://ycharts.com/indicators/30_year_treasury_rate
30 Year Mortgage Rate	https://ycharts.com/indicators/30_year_mortgage_rate
US Corp. AAA Effective Yield	https://ycharts.com/indicators/us_corporate_aaa_effective_yield
European Markets Performance	https://russellinvestments.com/middle-east/global-market-outlook#ColorBoxesRoot_5c2d1932-eb2f-4ad5-a377-5c496b847736
Sectors & Industries Performance	https://ycharts.com
Dow Jones Commodity Index	https://ycharts.com/indices/%5EDJCI
Gold Price	https://ycharts.com/indicators/gold_price_in_us_dollar
Crude Oil Price	https://ycharts.com/indicators/wti_crude_oil_spot_price