

Monthly Newsletter

June 2023



Monthly Market Recap

Uncertainty around the outcome of the debt ceiling talks and the path of the Fed's rate hike, weighed on markets during the month of May, as investors grappled with these concerns. The S&P rose a modest 0.4%, the DJIA decreased 3.2%, and the NASDAQ moved higher by 5.9% for the month.

The excitement around Technology (with a heavy focus on Artificial Intelligence) continues to push that sector higher, with P/E multiples increasing sharply in recent weeks. The NASDAQ has now retraced more than 50% of its decline since November 2021, despite corporate earnings falling for the first time year-over-year since Q4 2020 (the gains can be attributed to multiple expansions, not earnings growth). The 7 largest Technology stocks in the S&P 500 are up approximately 45% year-to-date, with the remaining 493 companies up around 1%. Even with this mismatch, corporate insiders are buying shares at the fastest pace since March 2020.

Inflation continues to improve. CPI for the month came in at 0.4%, with the annual rate declining to 4.9%, less than expectations. PPI, which is a critical leading indicator, continues to show inflation falling rapidly with an annual rate change of 2.3%, down from 2.7% the month prior. Euro Zone inflation fell to 6.1% in May, from 7% in April. In addition, we are now at 9-straight months of decreasing M2 money supply, which hasn't been witnessed since 1950. We expect these trends to continue in the months ahead.

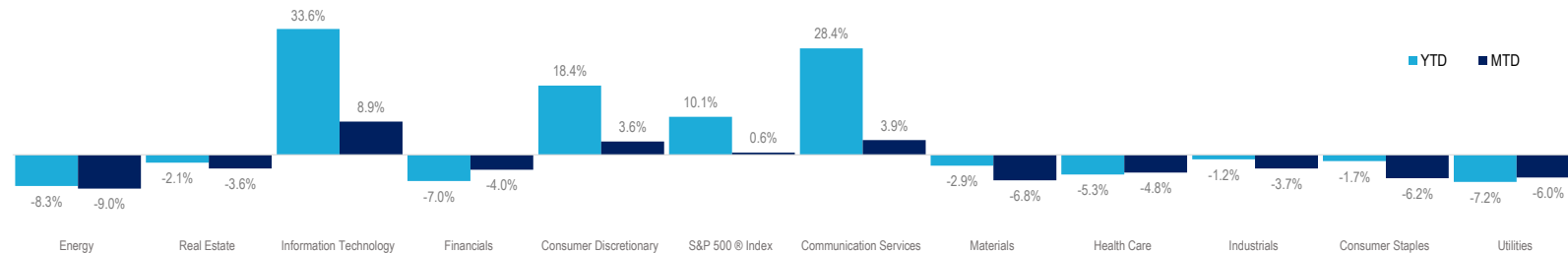
The Fed, as widely expected, increased interest rates for the 10th time in May, taking the target rate up another 25bps and hinting that the current cycle is at an end. Tighter credit conditions weigh on economic activity and hiring. With that said, households will not run out of excess savings until at least Q4 of 2023, which may help support equity markets. The brief banking crisis in March seems to have settled for the most part presently (we still think commercial real estate is a major risk on the horizon), however, the futures market has significantly adjusted expectations for the trajectory of the fed funds rate for the remainder of the year in the last several weeks (to the less extreme). Market expectations are pricing in a 64% probability of a rate pause at the June 13 FOMC meeting.

Higher equity valuations and decreasing earnings are making us more cautious at current levels. Adjustments in fixed income are now warranted. In addition, consensus estimates are now expecting a recession to start next quarter. Despite this, the historical precedent for year-to-date returns and the Fed rate hike cycle ending, suggests that equities may continue to run longer. Dating back to 1950, S&P gains of 8% or more during the first 100 days has led to average annual gains of 25%.

	Index Return %	
Equities	MTD	YTD
S&P 500	0.4%	9.6%
Russell 3000	0.4%	8.7%
Nasdaq	5.9%	24.1%
Dow Jones	-3.2%	0.2%
Fixed Income		
US Aggregate	-1.1%	2.5%
US Corporate High Yield	-0.9%	3.6%
		Rate %
Economic Metrics	Apr-23	
US Unemployment Rate	3.40%	
US Inflation Rate	4.93%	
Levels		
Commodities	Apr-23	May-23
Oil (WTI)	76.78	:RR: NO DAT/
Gold	1,982.60	1,961.60
DowJ. Commodity Index	989.24	930.59
Rate %		
Interest Rates	Apr-23	May-23
10 Year Treasury Rate	3.44%	3.69%
30 Year Treasury Rate	3.67%	3.90%
30 Year Mortgage Rate	6.43%	6.57%
US Corp. AAA Effective Yield	4.28%	4.68%

All numbers reported are as of May 31 2023

Major Economic Events	Date
Employment Situation	2-Jun
Inflation Rate	13-Jun
FOMC Meeting	14-Jun



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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/%5EDJC
Gold Price	https://ycharts.com/indicators/gold_price_in_us_dollar
Crude Oil Price	https://ycharts.com/indicators/wti_crude_oil_spot_price