WEEK OF MAY 22, 2023

Market Update

Quick Hits

1. **Report releases:** Both retail sales and industrial production hinted at improvement

2. **Financial market data:** Technology and discretionary stocks continued their recent rally

3. **Looking ahead:** Investors will look to the May Fed meeting minutes for policy clues

Report Releases: May 15–19, 2023

Retail Sales
April (Tuesday)

Retail sales rebounded in April following two consecutive months with declines. The core retail sales figure, which strips out the impact of volatile gas and auto purchases, came in well above expectations.

- Expected/prior month retail sales monthly change: +0.8%/–0.7%
- Actual retail sales monthly change: +0.4%
- Expected/prior month core retail sales monthly change: +0.2%/–0.5%
- Actual core retail sales monthly change: +0.6%

Industrial Production
April (Tuesday)

Industrial production increased more than expected in April, in part due to a rise in capacity utilization during the month. Manufacturing production also increased more than expected.

- Expected/prior month production change: +0.0%/+0.0%
- Actual production change: +0.5%

Housing Starts and Building Permits
April (Wednesday)

Housing starts and building permits came in mixed in April, with starts up and permits down modestly. Overall, the pace of new home construction remained well below the recent peak that we saw in 2021.

- Expected/prior month housing starts monthly change: –1.4%/–4.5%
- Actual housing starts monthly change: +2.2%
- Expected/prior month building permits monthly change: 0.0%/–3.0%
- Actual building permits monthly change: –1.5%

Existing Home Sales
April (Thursday)

The pace of existing home sales slowed more than expected in April, marking two consecutive months with slowing sales growth. The annualized rate of sales ended the month at 4.28 million, well below pre-pandemic levels.

- Expected/prior month existing home sales monthly change: –3.2%/–2.6%
- Actual existing home sales monthly change: –3.4%

>> The Takeaway

- Stronger-than-expected retail sales and industrial production point to an economy that may be more resilient than expected
- Not every area of the economy is displaying strength; real estate, for example, is clearly showing signs of slowing

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.71%	0.67%	9.91%	9.34%
Nasdaq Composite	3.08%	3.63%	21.37%	12.15%
DJIA	0.50%	−1.77%	1.69%	9.27%
MSCI EAFE	0.36%	-0.16%	11.35%	11.93%
MSCI Emerging Markets	0.51%	0.16%	2.94%	−0.79%
Russell 2000	1.93%	0.38%	1.27%	1.40%

Source: Bloomberg, as of May 19, 2023

Technology stocks led the way last week as Microsoft (MSFT), Nvidia (NVDA), and Alphabet (GOOGL) all continued their rally as AI continues its push out into the public following the Google I/O event. Financials also fared well amid waning regional bank concerns. JP Morgan Chase (JPM) was up more than 3.7 percent. Sectors that were more challenged included utilities, consumer staples, and real estate, which all showed signs of waning from 2022 levels.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	−1.65%	1.88%	−2.10%
U.S. Treasury	−1.50%	2.00%	−2.51%
U.S. Mortgages	−1.51%	1.50%	−2.94%
Municipal Bond	−0.78%	1.75%	3.92%

Source: Bloomberg, as of May 19, 2023

The 1-month U.S. Treasury yield fell 16.7 basis points (bps) last week (to 5.51 percent). This comes despite debates over the debt ceiling. The move of note was the increase in the 6-month Treasury yield, which climbed nearly 20 bps as we saw equity markets rally. Despite the lift in 6-month yields, the yield curve remained meaningfully inverted with the 10-year yield minus the 3-month yield closing the week inverted by 1.57 percent. Investors will keep an eye on both inflationary and economic data to see if this lift can extend its way out further on the yield curve.

>> The Takeaway

- AI stocks continue to drive the recent rally as the technology extends into additional areas
- A large shift in the front end of the yield curve indicates that bond investors expect a fairly significant shift in the economy over the coming months

Looking Ahead

Investors will look to S&P Global U.S. Composite Purchasing Managers' Index (PMI) and the Federal Reserve (Fed)'s May meeting minutes for an indication of business sentiment and a monetary policy outlook.

- The week will kick off on Tuesday with the **S&P Global U.S. Manufacturing and Services PMI reports** for May. The April PMI reports showed manufacturing and services PMI of 50.2 and 53.6, respectively, slightly in expansionary territory.
- This will be followed on Wednesday with the **Federal Open Market Committee (FOMC) meeting minutes** for May. Economists and investors will be closely examining the meeting minutes to see if the central bankers discussed the path forward for interest rates given the progress in lowering headline inflation so far this year.
- Finally, Friday will see the release of **personal income and spending reports** for April. The **durable goods** data will also be released. The April personal income and spending reports are both set to show growth during the month after experiencing mixed results in March. Both headline and core durable goods orders are set to fall in April, which would signal slowing business investment to start the second quarter.

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