



WEEK OF JULY 10, 2023

Market Update

Quick Hits

1. **Report releases:** Last week's employment report showed surprising results to the downside in June
2. **Financial market data:** Both equity and bond markets reset their expectations
3. **Looking ahead:** Inflationary data and consumer confidence will be front and center



Report Releases: July 3–7, 2023

ISM Manufacturing June (Monday)

Manufacturer confidence fell more than expected in June. This result left the manufacturing sector in contractionary territory for the eighth consecutive month.

- Expected/prior ISM Manufacturing index: 47.1/46.9
- Actual ISM Manufacturing index: 46.0



FOMC Meeting Minutes (Wednesday)

The minutes from the Federal Reserve (Fed)'s last meeting in June were released on Wednesday. The minutes showed a divided Federal Open Market Committee (FOMC), with some central bankers calling for a hike and others advocating for the pause in hikes we recently saw.



ISM Services June (Thursday)

Service sector confidence increased more than expected in June as the index hit a four-month high. The improving sentiment was widespread, with 15 out of the 18 surveyed industries reporting growth.

- Expected/prior ISM Services index: 51.2/50.3
- Actual ISM Services index: 53.9



Employment Report June (Friday)

Hiring remained solid in June, with 209,000 jobs added. While headline job growth came in slightly below economist expectations for 230,000 additional jobs, this still represents a strong month of hiring on an historical basis.

- Expected/prior change in nonfarm payrolls: +230,000/+306,000
- Actual change in nonfarm payrolls: +209,000



>> The Takeaway

- There was a divergence between Fed officials and the ISM Services and Manufacturing indices
- The employment report showed 209,000 jobs added in June, which came in below expectations but indicated that hiring may be slowing, thus bringing down the demand side of inflation

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-1.11%	-1.11%	15.59%	14.76%
Nasdaq Composite	-0.91%	-0.91%	31.12%	18.46%
DJIA	-1.91%	-1.91%	2.94%	9.99%
MSCI EAFE	-2.04%	-2.04%	9.39%	16.11%
MSCI Emerging Markets	-0.63%	-0.63%	4.22%	0.95%
Russell 2000	-1.26%	-1.26%	6.73%	7.02%

Source: Bloomberg, as of July 7, 2023

Equity markets took a breather last week as the June FOMC meeting minutes showed some internal conflict regarding whether to continue hiking rates ahead of last month's decision not to do so. The news led investors to believe that additional rate hikes will occur in the second half of 2023. This adjustment in expectations saw a mixed sell-off, with health care, materials, and tech among the hardest hit. Real estate, utilities, communication services, and consumer discretionary were among the top performers.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-1.30%	0.77%	-1.95%
U.S. Treasury	-1.20%	0.37%	-2.77%
U.S. Mortgages	-1.43%	0.40%	-2.79%
Municipal Bond	-0.32%	2.34%	1.68%

Source: Bloomberg, as of July 7, 2023

The yield curve continued its bear flattening this week. Rates beyond the 2-year U.S. Treasury yield continued to lift. The expectations for a rate hike in July also rose following the release of the FOMC meeting minutes.

>> The Takeaway

- Stocks took a breather as they digested the potential for a restart of rate hikes.
- The yield curve continued its bear flattening as intermediate-term bond yields lifted.

Looking Ahead

Investors will be watching for multiple inflation reports and consumer confidence.

- The week will kick off with the **consumer credit** release for May on Monday. Consumer credit is expected to drop to \$21B from \$23B in April. Lending standards continue to remain tight following the March banking concerns and elevated mortgage rate levels.
- Wednesday will see the **Consumer Price Index** release for June. Headline and core consumer prices are both set to show slowing year-over-year inflation in June, with headline consumer inflation set to fall to 3.1 percent for the year.
- Thursday will see the **Producer Price Index** release for June. Producer inflation is also expected to slow on a year-over-year basis in June, with headline producer prices set to increase by 0.4 percent.
- The week will wrap up with the **preliminary University of Michigan consumer sentiment survey** for July on Friday. The first estimate for consumer sentiment is expected to show a moderate increase in confidence to start the second half of the year, and the index is forecasted to hit a five-month high in July.





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capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

Authored by the Investment Research team at Commonwealth Financial Network®

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