WEEK OF JULY 17, 2023

Market Update

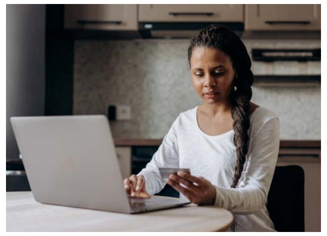
Quick Hits

1. **Report releases:** Annual consumer and producer inflation both slowed in June.
2. **Financial market data:** Equities rallied on lower inflation and strong bank earnings.
3. **Looking ahead:** Retail and existing home sales will be in focus.

Report Releases: July 10–14, 2023

Consumer Credit
May (Monday)

Consumer credit for May rose $7.24B versus expectations of $20.23B, following $23.01B in April. This was the smallest increase since November of 2020. Revolving credit, which includes credit cards, increased 8.2 percent versus 13.8 percent in April. This data point may indicate a slowing consumer.



Consumer Price Index
June (Wednesday)

Consumer inflation slowed on a year-over-year basis in June, with the annual 3 percent increase coming in below economic estimates and marking the lowest level of consumer inflation in more than two years.

- Prior monthly CPI/core CPI growth: +0.1%/+0.4%
- Expected monthly CPI/core CPI growth: +0.3%/+0.3%
- Actual monthly CPI/core CPI growth: +0.2%/+0.2%
- Prior year-over-year CPI/core CPI growth: +4.0%/+5.3%
- Expected year-over-year CPI/core CPI growth: +3.1%/+5.0%
- Actual year-over-year CPI/core CPI growth: +3.0%/+4.8%

Producer Price Index
June (Thursday)

Producer inflation also showed slowing year-over-year growth in June. Headline producer price growth fell to 0.1 percent during the month while core price growth also slowed.

- Prior monthly PPI/core PPI growth: -0.4%/+0.1%
- Expected monthly PPI/core PPI growth: +0.2%/+0.2%
- Actual monthly PPI/core PPI growth: +0.1%/+0.1%
- Prior year-over-year PPI/core PPI growth: +0.9%/+2.6%
- Expected year-over-year PPI/core PPI growth: +0.4%/+2.6%
- Actual year-over-year PPI/core PPI growth: +0.1%/+2.4%

University of Michigan Consumer Sentiment Survey
July (Friday)

Consumer sentiment improved more than expected in July, with the index rising to its highest level since September 2021. Both the current conditions and future expectations improved more than expected during the month.

>> The Takeaway

- Consumer credit was abnormally low, but, according to the University of Michigan consumer sentiment survey, consumers continue to remain upbeat
- Consumer price inflation hit its lowest level in more than two years. Producer price inflation also continues to decline, increasing just 0.1 percent year-over-year in June

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	2.44%	1.30%	18.41%	18.64%
Nasdaq Composite	3.32%	2.38%	35.47%	24.34%
DJIA	2.29%	0.35%	5.30%	12.69%
MSCI EAFE	4.87%	2.73%	14.71%	23.93%
MSCI Emerging Markets	4.95%	4.28%	9.38%	10.00%
Russell 2000	3.58%	2.28%	10.55%	12.42%

Source: Bloomberg, as of July 14, 2023

Equity markets rallied on the back of reports of falling inflation and strong bank earnings. The June Consumer Price Index (CPI) figure came in at three percent, which is the lowest level in more than two years. Additionally, banks such as J.P. Morgan (JPM), Wells Fargo (WFC), and Citigroup (C) all beat earnings as higher rates and continued loan growth led to higher net interest income. International markets benefited from softening in the dollar, and developed and emerging market indices were both up more than four percent as a result.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	0.20%	2.29%	−1.35%
U.S. Treasury	0.14%	1.72%	−2.27%
U.S. Mortgages	0.27%	2.14%	−2.06%
Municipal Bond	0.16%	2.84%	1.86%

Source: Bloomberg, as of July 14, 2023

The yield curve saw significant drops beyond the 1-year U.S. Treasury as a continued decline in inflation supported short- to intermediate- term bonds. Should inflation continue to fall, the bite from inflation on fixed coupon payments is reduced. The 2-year and 5-year Treasury yields fell 20 and 33 basis points (bps), respectively.

>> The Takeaway

- Falling inflation and better-than-expected bank earnings supported an equity rally
- Rates dropped beyond the one-year timeframe as inflation continued its decline

Looking Ahead

Following last week's consumer credit and confidence reports, investors will turn their attention to June retail sales.

- The week will kick off on Tuesday with the release of **retail sales** and **industrial production** data for June. Retail sales growth is expected to accelerate in June, which would mark consecutive months with spending growth. Industrial production is set to remain unchanged in June after falling modestly in May, and manufacturing production is expected to grow.
- The **National Association of Home Builders Housing Market Index** is also slated for release on Tuesday. Home builder confidence is expected to improve in July, with the index set to hit a one-year high during the month.
- The week will wrap with the release of **existing home sales** for June on Thursday. Existing home sales are expected to fall in June, which would mark four consecutive months of declining sales.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market 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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