



WEEK OF AUGUST 21, 2023

Market Update

Quick Hits

1. **Report releases:** FOMC meeting minutes showed the committee isn't counting out additional rate hikes if they become necessary.
2. **Financial market data:** Equity investors took a risk-off approach amid elevated rate and Chinese property development concerns.
3. **Looking ahead:** Home sales and consumer confidence will be in focus.



Report Releases: August 14–18, 2023

Retail Sales July (Tuesday)

Retail sales increased more than expected in July, with both headline and core sales growth accelerating to start the second half of the year.

- Expected/prior month retail sales monthly change: +0.4%/+0.3%
- Actual retail sales monthly change: +0.7%



Housing Starts and Building Permits July (Wednesday)

Housing starts and building permits increased in July after falling more than expected in June. These volatile measures of new home construction remain well below the recent highs we saw in 2021 and early 2022, indicating continued home builder caution.

- Expected/prior month housing starts monthly change: +1.1%/-11.7%
- Actual housing starts monthly change: +3.9%
- Expected/prior month building permits monthly change: +1.5%/-3.7%
- Actual building permits monthly change: +0.1%



Industrial Production July (Wednesday)

Industrial production improved more than expected in July, supported by increased capacity utilization and a 0.5 percent rise in manufacturing production during the month.

- Expected/prior month production change: +0.3%/-0.8%
- Actual production change: +1.0%



FOMC Meeting Minutes July (Wednesday)

The minutes from the July Federal Open Market Committee (FOMC) meeting showed that central bankers did not rule out additional rate hikes if inflationary pressures rise in the future. Post-meeting comments from Federal Reserve (Fed) Chair Jerome Powell indicated that the Fed is prepared to keep rates at restrictive levels until inflation is sustainably approaching the 2 percent target.



>> The Takeaway

- Retail sales increased more than expected which—should it continue—will provide broader support for economic activity and growth.
- FOMC meeting minutes showed the committee isn't counting out additional rate hikes if they become necessary.

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-2.05%	-4.66%	15.01%	3.74%
Nasdaq Composite	-2.55%	-7.28%	27.70%	3.44%
DJIA	-2.10%	-2.79%	5.52%	3.71%
MSCI EAFE	-3.29%	-6.25%	8.58%	9.44%
MSCI Emerging Markets	-3.28%	-7.72%	3.03%	-1.55%
Russell 2000	-3.36%	-7.07%	6.56%	-5.64%

Source: Bloomberg, as of August 18, 2023

Stocks sold off for a third consecutive week as elevated rate concerns continued to loom over equity markets. Additional concerns stemmed from Chinese property developers Country Garden and Evergrande. Country Garden indicated it would post its largest loss since going public 16 years ago as sales have fallen 60 percent from the year prior in July. Evergrande filed for Chapter 15 bankruptcy and is looking to restructure \$19 billion of its debt with offshore creditors. The Chinese property sector has historically been a major component of individual wealth and comes in the wake of China's second lending rate cut since June.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-1.85%	0.13%	-3.54%
U.S. Treasury	-1.50%	-0.29%	-3.83%
U.S. Mortgages	-2.09%	-0.34%	-4.83%
Municipal Bond	-1.41%	1.62%	0.92%

Source: Bloomberg, as of August 18, 2023

Intermediate- to long-term U.S. Treasuries continued their move higher following last week's weaker-than-expected auctions. Despite July meeting minutes indicating that the FOMC would be willing to provide additional rates as necessary to hit its two percent target, the bond market did not appear to provide much of a reaction. The 2-year Treasury yield fell by 2 basis points (bps) while the 10- and 30-year increased by 11 and 12 bps, respectively. Investors continue to take the higher yields of short-term rates ahead of any potential changes.

>> The Takeaway

- Equity investors took a risk-off approach amid elevated concerns related to FOMC rate hikes and Chinese property developers.
- Weak Treasury auctions sent intermediate- and long-term bond yields higher.

Looking Ahead

The releases this week will continue to focus on housing. Additional data on business and consumer sentiment are also slated for release.

- The week will kick off on Tuesday with the release of **existing home sales** for July. Existing home sales are set to fall modestly with high prices, rising mortgage rates, and limited supply of homes for sale all expected to weigh on sales.
- Wednesday will start with the **S&P Global U.S. Purchasing Managers Index (PMI)** for manufacturing, services, and the composite for the overall economy. Manufacturing is expected to remain flat at 49 while services is expected to drop from 52.3 to 52. New home sales will be released later in the day on Wednesday, with expectations of a slight increase from June to July.
- Thursday will see the release of **durable goods orders** data for July. Headline orders are set to fall due to a drop in volatile transportation orders. Core orders, which strip out the impact of transport and are viewed as a proxy for business investment, are set to increase for the third consecutive month.
- Finally, Friday will wrap with the **University of Michigan's consumer sentiment survey**. Economist expectations are for minimal change from July's 71.2 level.





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