OBSERVATIONS: *Markets rally into quarter end, Consumer confidence increases, Inflation still "sticky"*

- Equity markets rallied last week to close out the quarter and bond yields rose following better than expected economic data. The S&P 500 added +2.4%, small cap stocks (Russell 2000 Index) jumped +3.8%, and the Nasdaq gained +2.2%. In bond land, the 2-Year US Treasury yield rose +15bps to reach multi-week highs of 4.90%, while the 10-Year US Treasury yield rose +10bps to 3.84%.[1]
- Sales of new single-family homes rose +12.2% month-over-month (MoM) in May to a seasonally adjusted annual rate of 763k which is +20.0% higher than one year ago.[2]
- Durable goods orders rose in May +1.7% MoM, the third consecutive monthly gain and again buoyed by transportation—durable goods orders are now +3.5% higher than this time last year. Excluding transportation, goods orders rose +0.6% MoM and are +0.4% higher than a year ago.[3]
- Consumer confidence in June rose to 109.7 amid an improved assessment of current conditions (Present Situation Index) along with more positive sentiment for the short-term outlook (Expectations Index). June's reading was better than May's 102.5 level and is the highest level since January 2022.[4]
- Jobless claims dropped to 239k in the most recent weekly data, after five consecutive weekly increases. The 4-week moving average now stands at 258k, the highest level since November 2021 but still below the long-term average of 367k and below the level (280k) that would signal a slowing in labor growth.[1]
- Core Personal Consumption Expenditures (PCE) rose +0.3% MoM and came in at +4.6% on a Year-over-Year (YoY) basis vs expectations of +4.7%—*since December 2022 Core PCE has been stuck around +4.6% YoY.*[1]

EXPECTATIONS: *July rate hike in play and rate cuts no longer priced in for 2023, Q1 GDP gets upward revisions*

- Market expectations seem to be trending towards a more appropriate Federal Reserve policy path amid inflation that continues to fall but remains above the Fed's stated 2% inflation objective, a softening but strong labor economy, and a Fed that continues to reinforce a higher for longer stance. Federal Funds futures are projecting an 85% chance of a +25bps increase at the July Fed meeting and now do not expect a rate cut until June 2024—three months ago, markets were pricing in a rate cut starting in September 2023.[1]
- Real GDP grew by 2.0% in Q1 in the latest revisions, much higher than estimates of 1.4%, and was driven by upward revisions in consumer spending, government spending, and net exports. GDP projections based on the Atlanta Fed GDPNow model points to a 1.9% Q2 GDP estimate, which after accounting for forecast error may still indicate better-than-expected Q2 GDP data *(current Blue Chip consensus for Q2 GDP is around 1.0%)*.[5]

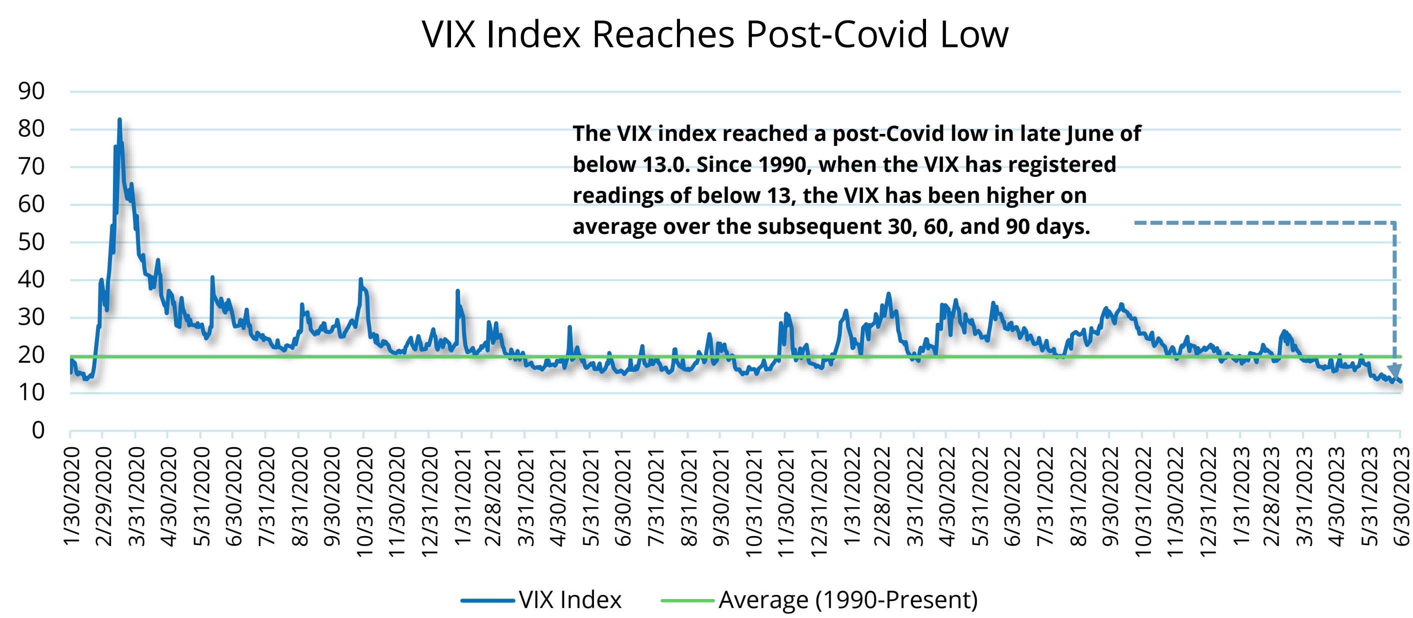
ONE MORE THOUGHT: *Q2 2023 recap; Growth stocks drive markets, and a noticeable absence of volatility*[6]

Equity markets were generally positive in the second quarter despite the headwinds of the regional banking drama that began to unfold in mid-March (KBW Regional Bank index dropped -5.7% during Q2). Broad indexes benefited from the continued rally in growth stocks during the quarter, driven heavily by the 'magnificent seven' (Apple, Nvidia, Microsoft, Alphabet, Tesla, Facebook, and Amazon). The Russell 1000 Growth index gained +12.8% in Q2 in contrast to the Russell 1000 Value index which gained +4.1%. Similar growth and value performance differences were observed in small cap during the quarter —but not as amplified given the 'magnificent seven' reside in the

[1] *Bloomberg LP*
[2] *https://www.census.gov/construction/nrs/pdf/newressales.pdf*
[3] *https://www.census.gov/manufacturing/m3/adv/pdf/durgd.pdf*
[4] *https://www.conference-board.org/topics/consumer-confidence*
[5] *https://www.atlantafed.org/cqer/research/gdpnow, https://www.bea.gov/news/2023/gross-domestic-product-third-estimate-corporate-profits-revised-estimate-and-gdp-industry*
[6] *Bloomberg LP, Deutsche Bank Asset Allocation S&P 500 post WWII, data as of 6/30/223*

large cap index— as the Russell 2000 Growth Index added +7.1% while the Russell 2000 Value Index gained +3.2% for the quarter. Overseas, both developed and emerging markets eked out modest gains with the MSCI EAFE Index gaining +3.0% and the MSCI Emerging Markets Index rising +0.9%. Interest rates were generally up during Q2, particularly at the short end of the curve as the Fed raised its policy interest rate (lower bound) by +25bps, from 4.75% to 5.00%. The 3-Month US Treasury Bill yield rose +55bps to 5.30%, while the 2-Year US treasury yield jumped +87bps to 4.90%. In contrast the 10-Year US Treasury yield rose a modest +37bps to 3.84% as investors continue to handicap the prospects for recession and lower overall economic growth. The Bloomberg US Aggregate Bond Index fell -0.8% amid higher interest rates, while high yield bonds (Bloomberg High Yield Index) gained +1.8% during the quarter. With most leading macroeconomic data still generally mixed (but looking a little better), earnings season is likely to underscore the importance of corporate guidance for H2 2023 for markets. On a technical note, the S&P 500 has not experienced a -3% to -5% drop in over three months which is nearly double the median time that the index experiences this sort of modest decline—relatedly, the VIX Index, aka 'The Fear Index', reached a post-Covid low in June (Chart of the Week). That sort of modest decline is hardly noticeable for long-term investors so we would not get too hung up over it, nonetheless it is a noteworthy point as we head into the next few weeks.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 6/30/2023

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