OBSERVATIONS: *Markets take a breather, manufacturing weak, strength in services sector drives employment data*

- Markets were weaker in the holiday shortened trading week as the S&P 500 dropped -1.1% and small cap stocks (Russell 2000 Index) underperformed large cap, declining -1.3%. The Nasdaq started the second half on a weaker note, giving back -0.9% last week—this comes as the tech heavy index posted its best first half of the year since 1983 after a blistering rally of 32.3% in the first six months of 2023.[1]
- The US services sector (ISM Services Index) expanded in June to 53.9—driven by business activity, new orders, and employment—up from May's 50.3 reading and better than expectations of 51.2. The services sector is now at the highest level since February 2023 and has now grown for 36 of the last 37 months.[2]
- Meanwhile, activity in the US manufacturing sector declined again in June with the ISM Manufacturing index registering 46.0, below expectations of 47.1. The manufacturing index fell for the third consecutive month and has now been below 50.0 (a level that indicates contractionary activity) since October 2022.[1]
- In the Eurozone, manufacturing activity (S&P HCOB manufacturing PMI) contracted in June to 43.4 from May's 44.8 and has been below 50.0 for twelve consecutive months.[3]
- Used car prices declined for the third consecutive month in June, with a -3.2% month-over-month (MoM) drop. Prices are down over -15.0% since they peaked in December 2021, contributing to the record share (44%) of trade-ins with negative equity.[4]
- June's jobs report showed non-farm payrolls increased by +209k in the month, bringing the average monthly job gains in the first half of 2023 to +278k. Expectations were for a gain of +230k and of note, the 'miss' versus expectations breaks a streak of 14 consecutive months of employment beating estimates. The unemployment rate ticked down to 3.6% from 3.7% in the prior month—since March 2022, the unemployment rate has ranged between 3.4% and 3.7%.[5]

EXPECTATIONS: *Fed remains hawkish and the 10-Year gets above 4.0%*

- Minutes from the Fed's June meeting confirmed that additional interest rate hikes would be warranted as appropriate, and that tight labor market conditions and "upside risks" to inflation remained key factors—specifically "that inflation was unacceptably high" and "that declines in inflation had been slower than they had expected." Following the release of the minutes, the probability of a +25bps rate hike at the July Fed meeting was mostly unchanged at near certainty (85% to 90%).[6]
- The 10-Year US Treasury yield closed the week at 4.07% following last week's employment data, matching 2023's daily closing high. The 10-Year yield has been stuck in a range of 3.25% to 4.25% for the better part of nine months and now looks poised to re-test the multi-year highs of 4.24% set in late October 2022.[1]

ONE MORE THOUGHT: *Potential impact from student loan repayments*[7]

With the Supreme Court blocking Biden's student loan forgiveness plan, attention turns to the potential economic fallout of repayment resumption. New student loan debt relief plans using existing legislature appear forthcoming and the broader topic is likely to be a fixture in politics given the number of voters affected. Any eventual new

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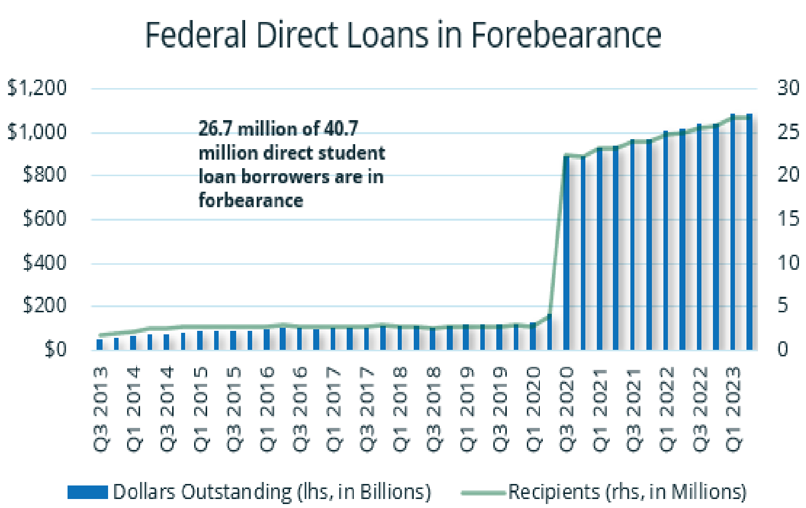
[1] *Bloomberg LP*
[2] *https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/services/june/*
[3] *https://www.pmi.spglobal.com/Public/Home/PressRelease/503ec7d1cabb49db8cd8eb10adf4d454*
[4] *Bloomberg LP, https://www.edmunds.com/industry/insights/negative-equity-is-surging-during-coronavirus.html*
[5] *https://www.bls.gov/news.release/empsit.nr0.htm, Bespoke Investment Group*
[6] *https://www.federalreserve.gov/monetarypolicy/files/fomcminutes20230614.pdf*
[7] *Clearstead, Federal Student Aid (https://studentaid.gov/data-center/student/portfolio), as of Q2 2023, Total federal student loans includes Direct Loans ($1.44 trillion), Federal Family Education Loans ($194.70 billion), and Perkins Loans ($3.70 billion); For illustrative purposes, spending drag assumes an average balance of $40,000 financed over a 10-year period at 6% interest rate across 26.7 million borrowers.*

legislative action is likely to be contentious given the focus on the deficit and spending by conservatives. Until that time, what we know is as follows. There are currently over 46.0 million federal student loan borrowers (Federal student loans account for nearly 90% of student borrowing) with $1.65 trillion in federal student loan debt. Of the 46.0 million about 40.7 million have borrowed from federal direct loan programs accounting for $1.44 trillion of the $1.65 trillion in total federal borrowing. According to Q2 government data 26.7 million of those federal direct loan borrowers are in forbearance programs totaling $1.08 trillion or about $40,000 per borrower (Chart of the Week). Using conservative estimates, we peg the potential economic impact at over $10 billion per month that would get pulled from savings, investment, and spending back into debt service. To be fair, the continued strength in the labor market should help mitigate any broad systemic risks and defaults should remain contained. While there are numerous caveats to the math and absent passage of government relief, it appears as though this could serve as a headwind for aggregate consumption in the economy in coming months.

**CHART OF THE WEEK**




**Federal Direct Student Loans By Cohort**

| Age Bucket | Total Federal Student Loans Outstanding (in Billions $) | Number of Borrowers (in Millions) | Average Amount Owed |
|---|---|---|---|
| 24 and Younger | $103.2 | 7.1 | $14,535 |
| 25 to 34 | $484.8 | 14.8 | $32,757 |
| 35 to 49 | $535.2 | 12.1 | $44,231 |
| 50 to 61 | $239.5 | 5.0 | $47,900 |
| 62 and Older | $81.0 | 1.7 | $47,647 |
| **Total** | **$1,443.7** | **40.7** | **$35,472** |

*Source: Clearstead, Federal Student Aid (https://studentaid.gov/data-center/student/portfolio) , as of Q2 2023*

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