



MARKET MINUTE

JUNE REVIEW 2023

This month's Market Minute reflects the views of Clearstead's Investment Office and was composed by [Thomas Seay, Senior Managing Director, Research, Clearstead](#)

OVERVIEW

June started with all eyes focused on the debt ceiling show going on in Washington D.C.; but, with a positive resolution and our nation's credit standing not impaired, investors' attention began to focus on economic data portraying an economy that appears to be humming along nicely. Another month, another incredibly strong jobs report. May saw 339k new jobs created—above expectations of 195k but in line with the average monthly gain of +341k for the prior 12-month period.¹ Although inflation remains above the Federal Reserve's 2% target, inflation is trending in the right direction - core services excluding housing and energy rose by +4.6% YoY in May, the smallest YoY increase in 15 months.² As such, consumer confidence is on the rise. In fact, consumer confidence in June rose to 109.7, better than May's 102.5 level, and is the highest level since January 2022.³ The Federal Reserve's June meeting saw the Fed pause in its yearlong march of driving the Fed funds rate up from near zero to 5%, but the new Summary of Economic Projections now implies two additional rate hikes by the end of 2023.⁴

Mr. Market seems to be comfortable with 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 but is close to the end of rising rates. In this environment, June was a risk-on month and continues 2023's positive momentum.

U.S. EQUITY MARKETS As of June 30, 2023

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	4.7%	4.0%	4.9%	14.2%
S&P 500	6.6%	8.7%	16.9%	19.6%
Russell 2000	8.1%	5.2%	8.1%	12.3%
Russell 1000 Growth	6.8%	12.8%	29.0%	27.1%
Russell 1000 Value	6.6%	4.1%	5.1%	11.5%

Domestic equity markets wrapped up a positive second quarter and first half of the year in June—led by the Consumer Discretionary, Industrials, and Materials sectors. Performance was more evenly distributed during the month in contrast to the narrow rally led by the so called “magnificent seven” in the months leading up to June. For the S&P 500, most of the index's constituent companies are now trading above their respective 50-, 100-, and 200-day moving averages.¹ This was hardly the case two months ago and speaks to the general broadening of the rally in recent weeks. Still, growth stocks managed to perform modestly better than their value counterparts. In large cap, the Russell 1000 Growth Index gained +6.8% in June while the Russell 1000 Value Index gained +6.6%.¹ Small cap stocks outperformed large cap in June, the first monthly outperformance for small cap since February 2023.¹ In small cap, the Russell 2000 Growth Index gained +8.3% and the Russell 1000 Value Index rose +7.9%.¹ Meanwhile, regional bank stocks (KBW Regional Bank Index) rose +7.1% in the month, breaking a three month long losing streak that saw the index lose nearly a third of its value.¹

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	4.5%	2.4%	9.5%	12.7%
MSCI EAFE	4.6%	3.0%	11.7%	18.8%
MSCI Emerging Markets	3.8%	0.9%	4.9%	1.7%
MSCI EAFE Small Cap	2.9%	0.6%	5.5%	10.2%

International equities underperformed U.S. markets but managed to generate gains in the month. International developed market equities (MSCI EAFE Index) rose +4.6% in June. Unlike in the U.S., developed international small cap stocks (MSCI EAFE Small Cap Index, +2.9%) underperformed developed international large cap stocks.¹ Emerging market equities modestly lagged their developed market counterparts as the MSCI EM Index tacked on +3.8% for the month.¹ Notably, China (MSCI China) bounced back after consecutive monthly declines in April and May to close June up +4.0%, while Brazil (MSCI Brazil) jumped 16.0% in the month.¹

FIXED INCOME MARKETS

Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.4%	-0.8%	2.1%	-0.9%
BarCap Global Aggregate	0.0%	-1.5%	1.4%	-1.3%
BarCap US High Yield	1.7%	1.7%	5.4%	9.1%
JPM Emerging Market Bond	1.9%	1.5%	3.8%	6.8%
BarCap Muni	1.0%	-0.1%	2.7%	3.2%

Although interest rates between 2 and 10 years were significantly higher (US Treasury 2-year yield rose by 50 bps to 4.90% and the 10-year yield climbed from 3.65% to 3.84%) and the Bloomberg U.S. Treasury index declined by 0.75% for the month of June, the U.S. Treasury 10-year yield remains in a sideways trading band witnessed since September of 2022.¹ Since U.S. Treasuries represent 40+% of the Bloomberg Aggregate Index, it is not surprising that the "Agg" was down -0.36% for the month.¹ But much like their equity brethren, high yield corporate investors chose to look at the bright economic outlook, driving spreads lower and enjoying a +1.7% return for the Bloomberg U.S. High Yield index.¹

CONCLUSION & OUTLOOK

Even though interest rates are at levels not seen in over a decade, for those whose first home was financed with a mortgage carrying a double-digit mortgage rate we may not find the current interest rate environment punitive. For the moment, the signals point to a top in rates and although we might be "higher for longer," unemployment levels are historically low, consumers continue to spend, and corporate America has a new AI toy which could be a game-changer. But, due to persistently sticky inflation, the Fed could be forced to drive rates higher and, at some point, the markets will behave poorly. For now, we are enjoying the 2023 returns but will remain concerned should the Fed resume its aggressive battle to drive inflation lower.

SOURCES

- 1 <https://www.bls.gov/news.release/empst.nr0.htm>
- 2 Bloomberg LP
- 3 <https://www.conference-board.org/topics/consumer-confidence>
- 4 <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtbl20230614.pdf>

DISCLOSURES: Information provided in this article is general in nature, is provided for informational purposes only, and should not be construed as investment advice. The views expressed by the author are based upon the data available at the time the article was written. Any such views are subject to change at any time based on market or other conditions. Clearstead disclaims any liability for any direct or incidental loss incurred by applying any of the information in this article. All investment decisions must be evaluated as to whether it is consistent with your investment objectives, risk tolerance, and financial situation. The performance data shown represent past performance. Past performance is not an indicator of future results. Current performance data may be lower or higher than the performance data presented.