



WEEK OF MAY 15, 2023

# Market Update

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## Quick Hits

1. **Report releases:** Year-over-year consumer and producer inflation slowed in April
2. **Financial market data:** Banks continued their volatility amid high short-term yields
3. **Looking ahead:** Retail sales and housing data will provide insight into economic health



## Report Releases: May 8–12, 2023

### Wholesale Trade Sales and Inventories March (Monday)

Wholesale trade sales fell 2.1 percent month-over-month in March as inventories remained flat. The inventory number came in below estimates for a 0.1 percent increase. The sales decline came in well below average expectations for 0.5 percent.



### Consumer Price Index (CPI) April (Wednesday)

Consumer inflation fell on a year-over-year basis in April, with the annual 4.9 percent increase representing the lowest level of consumer inflation in two years. Core consumer price growth also slowed modestly during the month.

- Prior monthly CPI/core CPI growth: +0.1%/+0.4%
- Expected monthly CPI/core CPI growth: +0.4%/+0.4%
- Actual monthly CPI/core CPI growth: +0.4%/+0.4%
- Prior year-over-year CPI/core CPI growth: +5.0%/+5.6%
- Expected year-over-year CPI/core CPI growth: +5.0%/+5.5%
- Actual year-over-year CPI/core CPI growth: +4.9%/+5.5%



### Producer Price Index April (Thursday)

Producer inflation also showed signs of slowing year-over-year growth in April. Headline producer price growth fell to 2.3 percent during the month, which was better than expected and marks the lowest level of producer inflation since early 2021.

- Prior monthly PPI/core PPI growth: -0.4%/+0.0%
- Expected monthly PPI/core PPI growth: +0.3%/+0.2%
- Actual monthly PPI/core PPI growth: +0.2%/+0.2%
- Prior year-over-year PPI/core PPI growth: +2.7%/+3.4%
- Expected year-over-year PPI/core PPI growth: +2.5%/+3.3%
- Actual year-over-year PPI/core PPI growth: +2.3%/+3.2%



### University of Michigan Consumer Sentiment Survey May (Friday)

Consumer sentiment fell more than expected to start May, primarily driven by a sharp drop in consumer expectations for future economic conditions. This result brought the index to its lowest level since November 2022, signaling headwinds for consumer spending in the months ahead.

- Expected/prior month consumer sentiment index: 63.0/63.5
- Actual consumer sentiment index: 57.7



## >> The Takeaway

- Wholesale sales and inflationary figures both indicate slowing inflation as demand wanes
- Consumer expectations dropped more than expected, indicating that the Federal Reserve's (Fed) increasing of rates has consumers tightening their budgets

## Financial Market Data

### Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-0.24%	-1.02%	8.07%	6.76%
Nasdaq Composite	0.44%	0.53%	17.74%	9.01%
DJIA	-1.04%	-2.26%	1.19%	7.22%
MSCI EAFE	-0.67%	-0.51%	10.95%	14.57%
MSCI Emerging Markets	-0.86%	-0.35%	2.42%	1.45%
Russell 2000	-1.04%	-1.52%	-0.65%	1.64%

Source: Bloomberg, as of May 12, 2023

Stocks were mostly lower last week, except for the Nasdaq Composite Index, which was lifted higher by a positive reaction to Alphabet (Google's) I/O 2023 event. The event provided updates on the company's artificial intelligence initiatives. Financials were among the worst performers as PacWest Bancorp indicated its deposits fell 9.5 percent the week prior.

### Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.28%	3.30%	-0.87%
U.S. Treasury	-0.10%	3.45%	-1.16%
U.S. Mortgages	-0.20%	2.85%	-1.61%
Municipal Bond	0.40%	2.96%	4.52%

Source: Bloomberg, as of May 12, 2023

The front end of the curve continued its inversion amid debt ceiling discussions last week. The 1-month yield rose 20 basis points (bps) (to 5.68 percent) while the 3-month yield dropped 6 bps (to 5.22 percent). The 2-year yield also moved up 9 bps (to 4 percent). We saw flattening with the 5-year and 10-year yields, up 4 bps (to 3.45 percent) and 3 bps (to 3.46 percent), respectively. Lastly, the 30-year yield increased 3 bps (to 3.78 percent).

## >> The Takeaway

- Financials continue to struggle as uncertainty around deposit stability has led to volatile regional bank performance
- 1 month Treasury bills continued their sell-off as investors continue to see uncertainty around Fed policy and the debt ceiling



## Looking Ahead

After last week's inflationary data, investors will focus on housing and shelter, which make up the largest component of the CPI.

- The week will kick off on Tuesday with **retail sales** and **industrial production** reports for April. The retail sales report is expected to show a return to sales growth following two months of declines. Industrial production is expected to remain unchanged.
- Thursday will follow with **housing starts and building permits** for April. Housing starts and building permits are set to come in mixed, with falling starts and modestly increasing permits.
- Finally, Friday will see the release of **existing home sales** for April. Existing home sales are expected to fall, which would mark two consecutive months with 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.

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