



WEEK OF AUGUST 14, 2023

# Market Update

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## Quick Hits

1. **Report releases:** Consumer and producer inflation increased modestly on a year-over-year basis.
2. **Financial market data:** Apart from energy, investors took a risk-off approach last week.
3. **Looking ahead:** Investors will look to the July FOMC meeting minutes for future policy clues.

## Report Releases: August 7–11, 2023

### Consumer Credit June (Monday)

Consumer credit came in higher than expected at \$17.847 billion versus average estimates of \$13.363 billion. This was a noticeable pickup from the May level of \$7.240 billion and shows that credit activity recovered after slowing the month prior.



### Consumer Price Index (CPI) July (Thursday)

Core consumer inflation continued to moderate on a year-over-year basis in July, highlighting the progress we've seen this year in lowering consumer inflation.

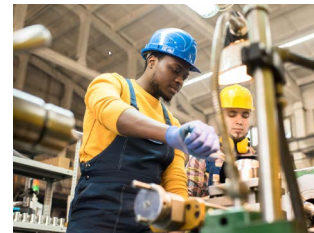
- Prior monthly CPI/core CPI growth: +0.2%/+0.2%
- Expected monthly CPI/core CPI growth: +0.2%/+0.2%
- Actual monthly CPI/core CPI growth: +0.2%/+0.2%
- Prior year-over-year CPI/core CPI growth: +3.0%/+4.8%
- Expected year-over-year CPI/core CPI growth: +3.3%/+4.7%
- Actual year-over-year CPI/core CPI growth: +3.2%/+4.7%



### Producer Price Index July (Friday)

Producer inflation picked up on a year-over-year basis in July, but headline producer inflation remained well below the Federal Reserve (Fed)'s 2 percent target.

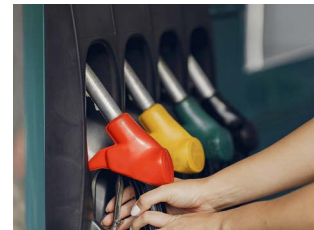
- Prior monthly PPI/core PPI growth: +0.0%/-0.1%
- Expected monthly PPI/core PPI growth: +0.2%/+0.2%
- Actual monthly PPI/core PPI growth: +0.3%/+0.3%
- Prior year-over-year PPI/core PPI growth: +0.2%/+2.4%
- Expected year-over-year PPI/core PPI growth: +0.7%/+2.3%
- Actual year-over-year PPI/core PPI growth: +0.8%/+2.4%



### Preliminary University of Michigan Consumer Sentiment Survey August (Friday)

Consumer sentiment fell modestly in August, in line with expectations after surging in July. Encouragingly, consumer inflation expectations fell, which is a good sign that the Fed's attempts to combat inflation are resonating with consumers.

- Expected/prior month consumer sentiment index: 71.2/71.6
- Actual consumer sentiment index: 71.2



## >> The Takeaway

- Consumer credit expanded after a lull in May and moved toward a more normalized level.
- Consumer and producer inflation both increased modestly on a year-over-year basis.

## Financial Market Data

### Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-0.27%	-2.67%	17.43%	6.07%
Nasdaq Composite	-1.87%	-4.85%	31.04%	5.51%
DJIA	0.69%	-0.71%	7.78%	6.77%
MSCI EAFE	-0.56%	-3.06%	11.75%	11.54%
MSCI Emerging Markets	-1.94%	-4.60%	6.29%	0.72%
Russell 2000	-1.62%	-3.84%	10.29%	-3.06%

Source: Bloomberg, as of August 11, 2023

Investors took a risk-off approach as potential for peak rates indicates that the acceleration in the economy may have also peaked. Investors took a risk-off approach last week with technology, materials, and consumer discretionary as the three worst-performing sectors. One exception was energy, which has been supported by West Texas Intermediate crude prices holding above \$80 per barrel. Health care was supported by strong earnings reports from Eli Lilly (LLY) and positive clinical data from Novo Nordisk's Wegovy diabetes and weight loss treatment.

### Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-1.35%	0.64%	-3.91%
U.S. Treasury	-1.09%	0.12%	-4.11%
U.S. Mortgages	-1.63%	0.13%	-5.28%
Municipal Bond	-0.83%	2.22%	0.28%

Source: Bloomberg, as of August 11, 2023

Treasury yields beyond the five-year maturity rose following U.S. Treasury auctions that showed softer-than-expected demand on new sales of U.S. debt. As a result, the 5-, 10-, and 30-year Treasuries closed 16, 11, and 6 basis points (bps) higher, respectively. Future auctions will be worth watching as mortgage rates carry a loose benchmark to 10-year Treasury yields. The spread between the 10-year Treasury and 30-year mortgage rates had already been wider than historical norms.

## >> The Takeaway

- Equity investors continue to digest the meaning of peak rates and current valuation levels.
- Weak Treasury auctions sent intermediate and long-term bond yields higher.

## Looking Ahead

Reports planned for Tuesday and Wednesday reports will provide insight into several areas. The releases will span across consumer spending, housing, and Fed policy.

- The data releases will kick off on Tuesday with the release of the **retail sales** data for July. Economists expect to see a fourth consecutive month with growing retail sales.
- Wednesday will see the release of both **housing starts, building permits, and industrial production** data for July. Both housing starts and building permits are set to increase in July following drops in June due to high levels of homebuilder confidence and home buyer demand expecting to support faster construction growth. Industrial production is set to rebound in July after falling in both May and June, with demand for manufactured goods on the rise.
- Finally, Wednesday will also see the release of the **Federal Open Market Committee (FOMC) meeting minutes** for July, which will be released on Wednesday. The Fed hiked rates by 25 bps at this meeting and the minutes will be widely scrutinized for any hints on the Fed's plans on the future path of monetary policy.





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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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