

Market Pulse *from the Investment Advisory Group*

July 3, 2023

In focus

After previously breaking a five-week winning streak, the S&P 500 rallied last week – up 2.4%. Leadership consisted mostly of cyclical sectors like energy, materials, and industrials; meanwhile, defensive areas like health care and utilities lagged. Despite the cyclical tilt, all eleven sectors in the S&P 500 ended the week higher.

Fixed income markets, on the other hand, remained at odds with the energetic equity markets, continuing to price in a higher-for-longer Federal Reserve (Fed). Both 2- and 10-year U.S. Treasury yields rose last week, and the Treasury curve further inverted, signaling that bond investors are increasingly pessimistic about near-term economic conditions.

Economic data underlying the market's behavior was mixed last week but skewed positive with the Fed's preferred inflation gauge, Personal Consumption Expenditures (PCE), showing its lowest year-over-year increase in over two years with Gross Domestic Product also increasing. The bulls point to a soft-landing based on robust economic activity and moderating inflation, while the bears call out sticky core inflation and higher rates with lagged effects. Last week, the bull's optimism prevailed, but with inflation at elevated levels and the Fed messaging higher rates, the debate is far from over.

A look back

- Global equity markets snapped back last week to end in positive territory by 2%. Emerging market equities lagged the group, down four basis points (0.04%).
- On the heels of stronger economic data early in the week, the 2-year U.S. Treasury yield increased to 4.87% and the curve further inverted.
- PCE data from May was released last Friday and showed the lowest year-over-year increase in prices since April of 2021.

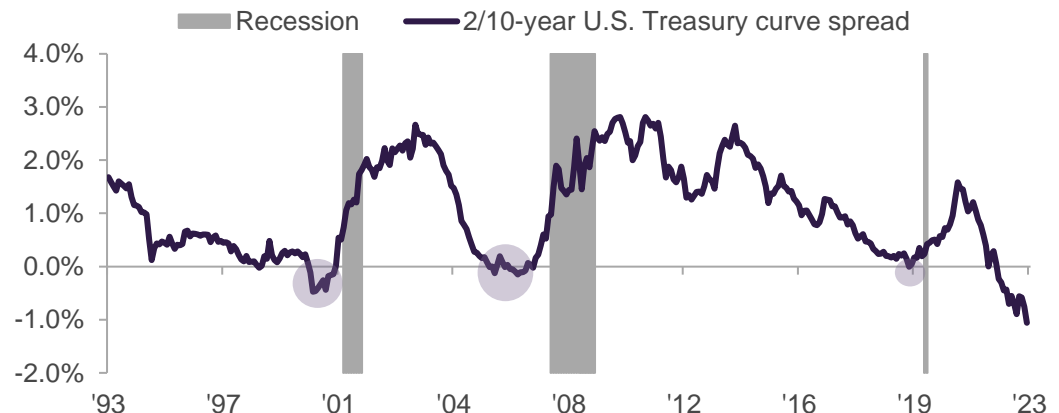
A look ahead

- A disjointed trading week is ahead as markets close early Monday before taking a break on Tuesday to celebrate July 4.
- Despite the shortened week, investors get numerous important economic readouts – including the Federal Open Market Committee (FOMC) meeting minutes from June.
- Economic releases: S&P Global U.S. & ISM Manufacturing & Services, Durable Goods Orders, FOMC minutes, Nonfarm Payrolls, and the Unemployment Rate.

Chart of the week – Inverted yield curve preceded previous recessions

While there are instances of yield curve inversion that have not preceded an imminent recession, the last three recessions in the United States saw the spread between 2-/10-year U.S. Treasury yields move into negative territory within the two preceding years.

2/10-year U.S. Treasury curve spread



Wealth

Data source: Truist IAG, Bloomberg, Haver. Past performance does not guarantee future results. Monthly data.

Market Pulse

As of June 30, 2023

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	2.00	5.81	6.18	13.93	16.53
S&P 500	2.36	6.61	8.74	16.89	19.59
MSCI EAFE (net)	1.66	4.55	2.95	11.67	18.77
MSCI Emerging Markets (net)	-0.04	3.80	0.90	4.89	1.75
Dow Jones Industrials	2.02	4.68	3.97	4.93	14.23
Bloomberg Commodity Index	-0.75	4.04	-2.56	-7.79	-9.61
Bloomberg Aggregate	-0.26	-0.36	-0.84	2.09	-0.94
ICE BofA US High Yield	0.81	1.63	1.63	5.41	8.87
Bloomberg Municipal Bond Blend 1-15 Year	-0.01	0.75	-0.41	1.85	2.78
ICE BofA Global Government xUS (USD Unhedged)	-0.35	-0.08	-3.31	-0.47	-3.96
ICE BofA Global Government xUS (USD Hedged)	-0.17	0.12	0.28	3.47	-0.43

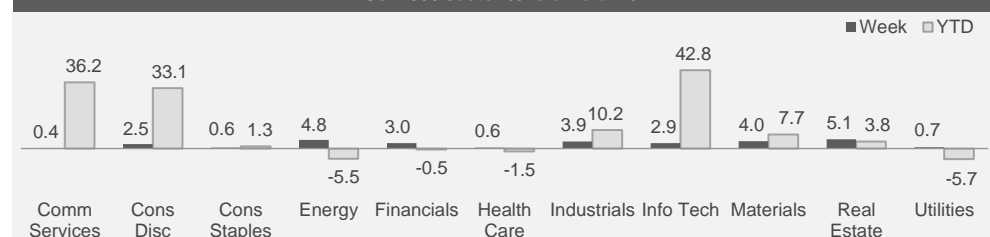
Rates (%)	6/30/23	3/31/23	12/30/22	9/30/22	6/30/22
Fed Funds Target	5.25	5.00	4.50	3.25	1.75
Libor, 3-Month	5.53	5.19	4.76	3.75	2.28
T-Bill, 3-Month	5.31	4.75	4.41	3.23	1.64
2-Year Treasury	4.87	4.06	4.41	4.20	2.93
5-Year Treasury	4.12	3.60	4.00	4.03	3.00
10-Year Treasury	3.81	3.49	3.87	3.79	2.97
30-Year Treasury	3.85	3.68	3.96	3.76	3.12
Bloomberg Aggregate (YTW)	4.81	4.40	4.68	4.75	3.72
Bloomberg Municipal Bond Blend 1-15 Year	3.23	2.87	3.18	3.73	2.82
ICE BofA US High Yield	8.56	8.50	8.95	9.58	8.93
Currencies	6/30/23	3/31/23	12/30/22	9/30/22	6/30/22
Euro (\$/€)	1.09	1.09	1.07	0.98	1.05
Yen (¥/\$)	144.54	133.09	131.95	144.75	135.86
Pound (\$/£)	1.27	1.24	1.20	1.12	1.21
Commodities	6/30/23	3/31/23	12/30/22	9/30/22	6/30/22
Crude Oil (WTI)	70.64	75.67	80.26	79.49	105.76
Gold	1,929	1,986	1,826	1,672	1,807
Volatility	6/30/23	3/31/23	12/30/22	9/30/22	6/30/22
CBOE VIX	13.59	18.70	21.67	31.62	28.71

U.S. style % total returns (S&P indexes)

Week				YTD		
Value	Core	Growth		Value	Core	Growth
2.70	2.36	2.08	Large	12.15	16.89	21.25
4.54	4.33	4.14	Mid	7.16	8.84	10.44
4.61	4.36	4.12	Small	5.06	6.03	7.02

Data Source: Truist, FactSet

S&P 500 sector % total returns



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Commonly used acronyms— SAAR = seasonally adjusted annual rate— MoM = month-over-month change— QoQ = quarter-over-quarter change— YoY = Year-over-year change— K = thousands— M = millions. Investing in the bond market is subject to certain risks, including market, interest rate, issuer and inflation risk— investments may be worth more or less than the original cost when redeemed. The value of most bond strategies and fixed income securities are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and more volatile than securities with shorter durations— bond prices generally fall as interest rates rise, and values rise when interest rates decline.

S&P 500 Index is comprised of 500 widely-held securities considered to be representative of the stock market in general.

S&P 500 Information Technology Index —a capitalization-weighted index that is composed of those companies included in the S&P 500 that are classified as members of the information technology sector based on GICS® classification.

The CBOE Volatility Index® (VIX®) is a measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

MSCI ACWI Index (MSCI All Country World) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.

MSCI EM Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Bloomberg Global Aggregate Index is an index of investment grade debt including treasury, government-related, corporate and securitized debt, from 24 local currency benchmarks.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

The ICE BofAML U.S. High Yield Index tracks the performance of below investment grade, but not in default, U.S. dollar denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.

The Bloomberg Municipal Bond Blend 1-15 Year (1-17 Yr) is an index of municipal bonds with a minimum credit rating of at least Baa, issued as part of a deal of at least \$50 million, that have a maturity value of at least \$5 million and a maturity range of 12 to 17 years.

The Bloomberg U.S. Corporate High Yield measures the USD-denominated high yield fixed-rate corporate bond market. Bonds are classified as high yield if they are rated below BBB by Moody's and S&P.

The Bloomberg Dollar Spot Index tracks a basket of 10 leading global currencies versus the U.S. dollar.

The ICE BofAML Global Government ex U.S. Index tracks the performance of publicly issued investment grade sovereign debt denominated in the issuer's own domestic currency excluding all securities denominated in U.S. dollars.

JP Morgan EMBI Global Diversified index includes only USD-denominated emerging markets sovereign bonds and the traditional, market capitalization weighted method for country allocation is modified to limit the weights of index countries with larger debt loads by only including a specified portion of the eligible fact amounts of the debt outstanding.

The Bloomberg Commodity Index is a composition of futures contracts on physical commodities in five sectors including energy, agriculture, industrial metals, precious metals and livestock.

The S&P U.S. REIT index measures the investable universe of publicly traded real estate investment trusts domiciled in the United States.

IA SBBi U.S. Large Stock Index measures the total return of U.S. large cap stocks on a monthly basis.

IA SBBi Intermediate-Term Government Bond Index measures the total return of U.S. intermediate-term government bonds on a monthly basis.

IA SBBi U.S. 30-day T-Bill index measures the total return of T-Bills with a maturity of one month on a monthly basis.

The S&P 500 High Beta index measures the performance of 100 constituents in the S&P 500 that are the most sensitive to changes in market returns.

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