

Market Pulse *from the Investment Advisory Group*

July 24, 2023

In focus

The recent equity rally continued last week as the S&P 500 touched a year-to-date high before sliding slightly to end the week. Q2 earnings, so far, have mostly validated the move as more than 75% of the 87 companies in the S&P 500 that have reported beat analyst expectations. The stock market rebound has broadened out beyond just mega-cap tech over the past month as economists shift their timing of a potential recession further and further out.

Jobless claims came in lower than expected last week, defying most market participant's idea of how the Federal Reserve's (Fed's) aggressive hiking campaign would affect the labor market. Despite the Fed's pause last month, inflation came in cooler than expected in June, resulting in the real, or inflation-adjusted, Fed funds rate sitting at its highest level since 2009. The Fed will meet this week and will likely raise their benchmark rate again – especially now that financial conditions have eased more after both the equity and credit markets rallied over the past month.

The bond market is still coming to terms with a delayed recession. The inversion between the 2-year and 10-year U.S. Treasury yields deepened over the past week, but that came at the expense of the 2-year rising again. Treasury traders are trying to figure out if they should take the Fed at their word or not, and therefore are repricing short yields higher.

A look back

- Global equity markets were mixed last week, with the S&P 500 up almost 1%, while international developed markets fell by 0.5% and emerging markets dropped over 1%.
- U.S. Treasury yields mostly rose last week, albeit at a slower pace than over the past quarter. The 2-year yield rose the most but only jumped by less than 0.1%.
- Retail sales missed estimates on a headline basis, but after taking out autos and gas, core spending came in mostly in line.

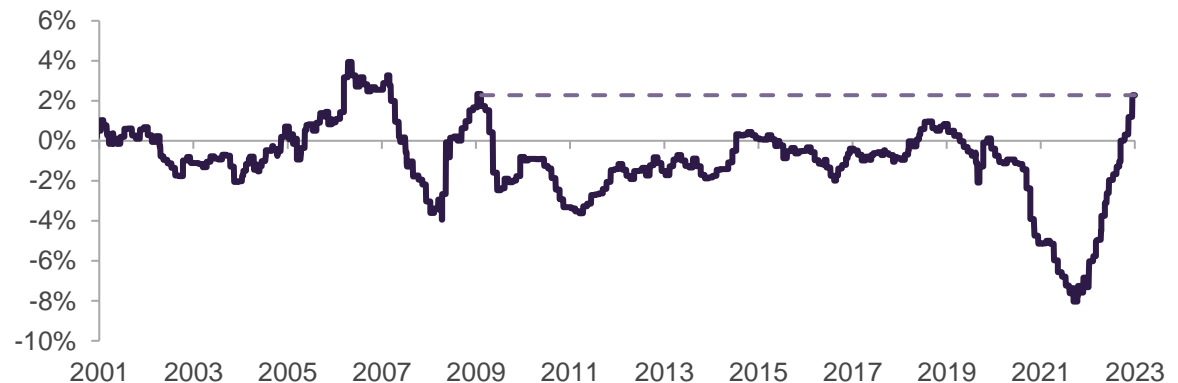
A look ahead

- The first look at second quarter GDP will be released this week with the main focus on whether personal consumption continued to hold up the economy.
- The Fed and ECB meet this week, and both are likely to raise their benchmark interest rates after sticky inflation data last month.
- Economic releases: Consumer Confidence, New Home Sales, U.S. 2Q GDP, Personal Income & Spending, Personal Consumption Expenditures, U. of Michigan Sentiment.

Chart of the week – Real Fed funds rate is the highest since 2009

After last month's reading of the Consumer Price Index (CPI), the real, or inflation-adjusted, Fed funds rate is now at its highest point since 2009. Another 0.25% hike this week would put the real Fed funds rate at 2.53%, a rapid increase from April of last year when it hit -8%.

Fed funds rate minus headline CPI YoY



Data source: Truist IAG, Bloomberg



Wealth

Market Pulse

As of July 21, 2023

Index % Total Return	Week	MTD	QTD	YTD	1 Yr
MSCI ACWI (net)	0.18	2.22	2.22	16.46	14.41
S&P 500	0.70	2.00	2.00	19.24	15.33
MSCI EAFE (net)	-0.57	2.14	2.14	14.06	18.93
MSCI Emerging Markets (net)	-1.31	2.91	2.91	7.94	5.34
Dow Jones Industrials	2.13	2.48	2.48	7.54	12.30
Bloomberg Commodity Index	1.64	4.97	4.97	-3.20	-4.24
Bloomberg Aggregate	0.01	0.21	0.21	2.30	-1.71
ICE BofA US High Yield	0.01	1.12	1.12	6.60	6.00
Bloomberg Municipal Bond Blend 1-15 Year	0.42	0.58	0.58	2.44	2.04
ICE BofA Global Government xUS (USD Unhedged)	-1.27	1.57	1.57	1.09	-1.19
ICE BofA Global Government xUS (USD Hedged)	0.51	0.00	0.00	3.48	-1.05

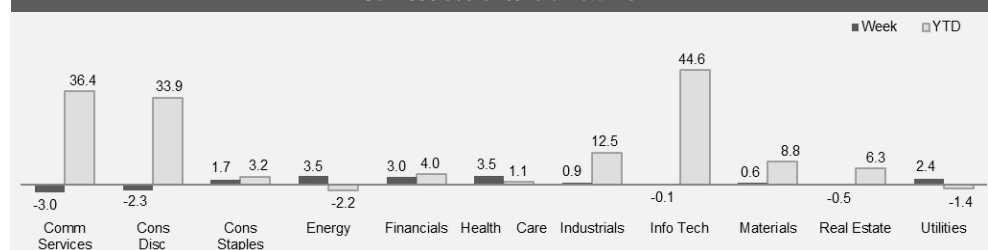
Rates (%)	7/21/23	6/30/23	3/31/23	12/30/22	9/30/22
Fed Funds Target	5.25	5.25	5.00	4.50	3.25
T-Bill, 3-Month	5.41	5.31	4.75	4.41	3.23
2-Year Treasury	4.85	4.87	4.06	4.41	4.20
5-Year Treasury	4.09	4.12	3.60	4.00	4.03
10-Year Treasury	3.84	3.81	3.49	3.87	3.79
30-Year Treasury	3.90	3.85	3.68	3.96	3.76
Bloomberg Aggregate (YTW)	4.79	4.81	4.40	4.68	4.75
Bloomberg Municipal Bond Blend 1-15 Year	3.13	3.23	2.87	3.18	3.73
ICE BofA US High Yield	8.36	8.56	8.50	8.95	9.58
Currencies	7/21/23	6/30/23	3/31/23	12/30/22	9/30/22
Euro (\$/€)	1.11	1.09	1.09	1.07	0.98
Yen (¥/\$)	141.76	144.54	133.09	131.95	144.75
Pound (\$/£)	1.28	1.27	1.24	1.20	1.12
Commodities	7/21/23	6/30/23	3/31/23	12/30/22	9/30/22
Crude Oil (WTI)	77.07	70.64	75.67	80.26	79.49
Gold	1,967	1,929	1,986	1,826	1,672
Volatility	7/21/23	6/30/23	3/31/23	12/30/22	9/30/22
CBOE VIX	13.60	13.59	18.70	21.67	31.62

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

Week				YTD		
Value	Core	Growth		Value	Core	Growth
1.05	0.70	0.40	Large	15.13	19.24	23.01
1.03	1.20	1.36	Mid	10.53	12.36	14.10
1.81	1.64	1.47	Small	8.92	9.62	10.33

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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