February 24, 2023

MARKET VIEW WEEKLY

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ECONOMIC REVIEW[1]

- Friday's Personal Consumption Expenditure (PCE) Price Index report dominated headlines over a relatively quiet week for economic data, but not in a good way.
  - Headline PCE rose 0.6% month-over-month in January – the largest increase in seven months.
  - "Core" PCE, which excludes the volatile food and energy components, also rose 0.6% month-over-month – the most in six months and above market expectations.
- Both of these increased their respective twelve-month (year-over-year) measures, reversing established downtrends in PCE prices on an annual basis.
  - Headline PCE year-over-year ticked up to 5.4% from 5.3% in December.
  - The "Core" PCE price index, the Fed's preferred inflation gauge, is up 4.7% in the past year, a notch above the previous month's reading of 4.6%.
- "SuperCore" inflation, another measure the Fed watches closely these days, which is services only (no goods), excluding food, energy, and housing, *also* increased 0.6% in January – the largest jump in any month since late 2021.
  - This specific metric climbed to 4.6% year-over-year, dramatically above the Fed's broad inflation target of 2%.
  - Showing little improvement since the 5.0% reading for the twelve months ended January of last year, SuperCore inflation seems to suggest that "the economy outside the interest rate-sensitive components – which only make up 20% of GDP – is simply not slowing down."[2]
- Federal Open Market Committee (FOMC) minutes from the February 1 meeting released on Wednesday and confirmed recent Fed messaging and guidance that a stronger U.S. economy and stubborn inflation could lead them to raise interest rates somewhat higher, keeping them elevated for longer, than originally anticipated.
  - "While the quarter-point rate rise was backed unanimously by the rate-setting committee, the minutes said a few officials favored or would have also agreed to support a half-point increase."[3]

How do PCE prices and Fed minutes impact you?

- The PCE price index, like the Consumer Price Index (CPI), came in hotter than expected, even reversed consistent downtrends in the most closely followed inflation measures, increasing the likelihood that wrestling control of rising prices will require a more extended tightening period by the Fed.
- The central bank's own meeting minutes essentially confirm the same, despite most officials agreeing that a slower pace provided optimal risk management of raising rates too much or too little, "a number of participants observed that a policy stance that proved to be insufficiently restrictive could halt recent progress in moderating inflationary pressures."[4]
  - Stubbornly high job growth, continued spending, and elevated wage growth all point to further interest rate hikes from the Fed, which continue to represent downside risk for equity and credit markets.
  - "A Fed-driven tightening in financial conditions with higher rates, lower equities, and wider credit spreads increases the probability that 'no landing' will be followed by a hard landing."[5]

A LOOK FORWARD[1]

- This week ISM Manufacturing and Non-Manufacturing (or Services) Purchasing Managers Indices (PMI) will be in focus.
  - ISM Manufacturing will look to recover from January's brutal 47.4 reading, the lowest since May 2020 at the height of the Covid pandemic.
  - While ISM Services attempt to build on last month's unexpected jump to 55.2 supported by capacity and logistics performance indicating that business is trending in a positive direction.

MARKET UPDATE[6]

Market Index Returns as of 2/24/23	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	-2.66%	3.66%	3.66%	-7.93%	10.03%	9.56%
NASDAQ Composite TR USD	-3.31%	9.02%	9.02%	-16.06%	9.18%	10.20%
DJ Industrial Average TR USD	-2.97%	-0.69%	-0.69%	-1.61%	8.82%	7.65%
Russell Mid Cap TR USD	-2.81%	5.64%	5.64%	-5.22%	9.10%	8.03%
Russell 2000 TR USD	-2.86%	7.49%	7.49%	-6.03%	7.68%	5.43%
MSCI EAFE NR USD	-2.41%	4.88%	4.88%	-3.96%	4.49%	2.33%
MSCI EM NR USD	-2.74%	1.72%	1.72%	-14.64%	-0.41%	-2.05%
Bloomberg US Agg Bond TR USD	-0.89%	0.16%	0.16%	-9.24%	-3.62%	0.49%
Bloomberg US Corporate High Yield TR USD	-0.17%	2.00%	2.00%	-5.72%	0.62%	2.83%
Bloomberg Global Aggregate TR USD	-1.19%	-0.37%	-0.37%	-13.41%	-4.97%	-1.84%

OBSERVATIONS

- U.S. stocks notched their worst weekly performance of the year as hotter-than-expected inflation data sparked concerns over more restrictive Fed policy.
  - The NASDAQ declined the most, more than -3.3%, though all major indices, domestic and international, dropped at least -2.4%.
- Bonds were negative across the board, although domestic fixed income investors faired slightly better than global lenders with the Bloomberg US Agg Bond Index declining -0.89 % vs. the Bloomberg Global Aggregate Index -1.19% drop.
  - Credit investors actually topped the lot on the week, particularly at lower quality, with Corporate High Yield falling just -0.17%.

BY THE NUMBERS

- **War in Ukraine Drives New Surge of U.S. Oil Exports to Europe:** A year of war in Ukraine is revitalizing U.S. oil exports as a source of financial influence and geopolitical power. As the West has shunned most Russian energy, unleashing a pressure campaign against the Kremlin's petroleum revenues, record U.S. crude exports have helped fill the gap in Europe with the oil needed to produce gasoline, diesel and jet fuel. Since February 2022, when Russia invaded Ukraine, average monthly seaborne cargoes to the continent jumped 38% compared with the previous 12-month period, according to ship-tracking firm Kpler. A fleet of skyscraper-size tankers carried more crude to Germany, France and Italy—the European Union's largest economies—as well as Spain, which alone boosted purchases by about 88% over the period. The pull of oil shipments from the Gulf Coast to Europe, which Kpler pegged at 1.53 million barrels a day in January, has in recent months made the continent a larger destination for U.S. crude than Asia.[7]

- **Lab Leak Most Likely Origin of Covid-19 Pandemic, Energy Department Now Says:** The U.S. Energy Department has concluded that the Covid pandemic most likely arose from a laboratory leak, according to a classified intelligence report recently provided to the White House and key members of Congress. The shift by the Energy Department, which previously was undecided on how the virus emerged, is noted in an update to a 2021 document by Director of National Intelligence Avril Haines's office. The new report highlights how different parts of the intelligence community have arrived at disparate judgments about the pandemic's origin. The Energy Department now joins the Federal Bureau of Investigation in saying the virus likely spread via a mishap at a Chinese laboratory. Four other agencies, along with a national intelligence panel, still judge that it was likely the result of a natural transmission, and two are undecided. The Energy Department's conclusion is the result of new intelligence and is significant because the agency has considerable scientific expertise and oversees a network of U.S. national laboratories, some of which conduct advanced biological research. The Energy Department made its judgment with "low confidence," according to people who have read the classified report. The FBI previously came to the conclusion that the pandemic was likely the result of a lab leak in 2021 with "moderate confidence" and still holds to this view.[8]

Economic Definitions

PCE (headline and core): PCE deflators (or personal consumption expenditure deflators) track overall price changes for goods and services purchased by consumers. Deflators are calculated by dividing the appropriate nominal series by the corresponding real series and multiplying by 100.

Supercore Inflation: Supercore inflation an unofficial Fed metric, comprises the price of services (services such as barbers, lawyers or plumbers), while excluding energy, food and housing. The price of goods are not included in this measure of inflation.

Consumer Price Index (CPI) headline and core: Consumer prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

ISM Manufacturing PMI: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc.

ISM Non-Manufacturing (Services) PMI: PMI Surveys track sentiment among purchasing managers at manufacturing, construction and/or services firms. An overall sentiment index is generally calculated from the results of queries on production, orders, inventories, employment, prices, etc. Target Audience: supply management professionals Sample Size: 300 individuals Date of Survey: through the month The Services Index is a composite index of four indicators with equal weights: Business Activity, New Orders, Employment and Supplier Deliveries. An index reading above 50% indicates an expansion and below 50% indicates a decline in the non-manufacturing economy. Whereas per Supplier Deliveries Index, above 50% indicates slower deliveries and below 50% indicates faster deliveries.

Federal Reserve (Fed): The Federal Reserve System is the central banking system of the United States of America.

Federal Funds Rates (Fed Funds rate): The Federal funds rate refers to the target interest rate set by the Federal Open Market Committee (FOMC). This target is the rate at which commercial banks borrow and lend their excess reserves to each other overnight.

Index Definitions

S&P 500: The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

NASDAQ: The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

Dow Jones Industrial Average: The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Russell Mid-Cap: Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 25% of the total market capitalization of the Russell 1000 Index.

Russell 2000: The Russell 2000 Index is comprised of the smallest 2000 companies in the Russell 3000 Index, representing approximately 8% of the Russell 3000 total market capitalization. The real-time value is calculated with a base value of 135.00 as of December 31, 1986. The end-of-day value is calculated with a base value of 100.00 as of December 29, 1978.

MSCI EAFE: The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

MSCI EM: The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid-cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

Bloomberg Barclays US Agg Bond: The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg Barclays High Yield Corp: The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

Bloomberg Barclays Global Agg: The Bloomberg Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Barclays Municipal Bond Index: The Bloomberg Barclays U.S. Municipal Index covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

Disclosures

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[1] Data Obtained from Bloomberg as of 02/24/2023.
[2] No Landing Continues – Apollo Academy
[3] Fed Minutes Show Most Officials Favored Quarter-Point Rate Rise - WSJ
[4] FOMC Minutes January 31–February 1, 2023 (federalreserve.gov)
[5] No Landing Continues – Apollo Academy
[6] Data Obtained from Morningstar as of 02/24/2023.
[7] War in Ukraine Drives New Surge of U.S. Oil Exports to Europe - WSJ
[8] A Lab Leak in China Most Likely Origin of Covid Pandemic, Energy Department Says - WSJ