

# MARKET VIEW WEEKLY

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## ECONOMIC REVIEW<sup>1</sup>

- Wednesday's Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) report came in softer than expected increasing to 47.7, versus consensus of 48.0.<sup>1</sup>
- (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
  - Economic activity in the manufacturing sector contracted for the fourth consecutive month revealing factories are tailoring production in anticipation of an economic slowdown.
  - Major measures were mixed, new orders index rose, while the production, supplier deliveries, and employment indexes each fell.<sup>1</sup>
  - The Texas-specific Dallas Fed Manufacturing index also showed factory activity declining in February.<sup>1</sup>
    - "The production index, a key measure of state manufacturing conditions, edged down from 0.2 to -2.8, a reading suggestive of a modest contraction in output," the Dallas Fed stated.<sup>2</sup>
- Fridays ISM Non-Manufacturing (Services) PMI report revealed the sector expanded more than expected.<sup>1</sup>
  - Coming in at 55.1 for the month of February and beating the consensus expected 54.5.
  - Major measures were mixed here as well, the new orders index and employment index both rose, while business activity and supplier deliveries (an inverse index) declined.<sup>1</sup>
- Weekly applications for US unemployment benefits, also known as jobless claims edged lower last week.<sup>1</sup>
  - Claims fell once again last week, staying below 200,000 for the seventh week in a row.<sup>1</sup>
  - Applications fell to 190,000 versus a consensus estimate of 197,000.<sup>1</sup>
- Pending home sales posted a surprising number surging 8.1% in January, representing the largest increase since summer 2020.<sup>1</sup>
  - Post-January mortgage rates have ticked back up, but the dip to start the year incentivized buyers to act, driving sales higher.

### How do ISM Reports and Jobless Claims impact you?

- The ISM reports are the first major economic indicators released each month and can be viewed as a window into the health of the economy.
  - In the manufacturing sector, panelists remain optimistic, with Timothy Fiore, Chair of ISM noting "companies continue to attempt to maintain head-count levels through the projected slow first half of the year in preparation for a stronger performance in the second half."<sup>3</sup>
  - In services, February's report shows the sector is expanding more than consensus which can be construed as a signal of the economy's resilience in the face of inflation and higher interest rates.<sup>3</sup>
- Unemployment filings continue to remain near historic lows, serving as a barometer of the health of the labor market.<sup>1</sup>
  - Should this number begin to show a compelling upward trend it would signal the economy is heading toward a recession.



## A LOOK FORWARD<sup>1</sup>

- This week's upcoming economic indicators will have investors focusing in on the labor market.
  - Of notable significance, Job Openings (JOLTS) releases Wednesday, initial jobless claims on Thursday, and the Employment Situation Report (Unemployment) on Friday.
  - Private payroll information by way of the ADP Employment report also releases on Wednesday.
- Fed Chairman Jay Powell will testify Tuesday and Wednesday before Congress as part of his semi-annual testimony on Monetary Policy.



## MARKET UPDATE<sup>4</sup>

Market Index Returns as of 3/3/23	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	1.96%	5.69%	5.69%	-4.95%	10.72%	10.42%
NASDAQ Composite TR USD	2.61%	11.87%	11.87%	-11.42%	9.91%	11.00%
DJ Industrial Average TR USD	1.85%	1.15%	1.15%	1.47%	9.45%	8.70%
Russell Mid Cap TR USD	2.16%	7.92%	7.92%	-1.38%	10.47%	8.87%
Russell 2000 TR USD	2.05%	9.70%	9.70%	-2.22%	9.35%	6.07%
MSCI EAFE NR USD	1.81%	6.77%	6.77%	4.58%	6.18%	3.29%
MSCI EM NR USD	1.68%	3.43%	3.43%	-11.18%	0.73%	-1.16%
Bloomberg US Agg Bond TR USD	0.12%	0.28%	0.28%	-9.98%	-4.00%	0.51%
Bloomberg US Corporate High Yield TR USD	0.78%	2.79%	2.79%	-4.83%	0.97%	3.03%
Bloomberg Global Aggregate TR USD	0.02%	-0.35%	-0.35%	-13.56%	-5.53%	-1.87%



## OBSERVATIONS

- U.S. stocks bounced back nicely last week with the tech-heavy NASDAQ +2.61% leading the way on raised hopes the Fed may tailor back its rates campaign.
  - Domestically, the DJ Industrial Average, +1.85% appreciated the least, though all major indices, domestic and international were positive
- Bonds were slightly positive across the board, although domestic fixed income investors fared slightly better than global lenders with the Bloomberg US Agg Bond Index growing +0.12% vs. the Bloomberg Global Aggregate Index up +0.02%.
  - Credit investors, particularly at lower quality, experienced strong performance with Corporate High Yield climbing +0.78%.



## BY THE NUMBERS

- **Apartment Rents Fall as Crush of New Supply Hits Markets:** Apartment rents fell in every major metropolitan area in the U.S. over the past six months through January, a trend that is poised to continue as the biggest delivery of new apartments in nearly four decades is slated for this year. Renters with new leases in January paid a median rent that was 3.5% lower than they would have paid last August, according to estimates from listing website Apartment List. It was the first time in five years that rent fell every month over a six-month period, according to the same estimates. Four other market measures by housing-data companies also show that new-lease rents either fell or remained flat in January compared with the previous month, extending a streak of monthly rent declines that began at the end of the summer.<sup>5</sup>
- **Let them eat... turnips? Tomato shortage in UK has politicians looking for answers:** It's not easy to find a tomato in the U.K. right now. And if you do, you'd better savor it. Supermarkets like Tesco and Aldi have placed strict limits on the number of tomatoes customers can buy, as well as other produce, like cucumbers and broccoli. The main issue, says Economist Tim Harford, is a bad harvest out of Spain and Morocco, where Europe and the U.K. get a lot of their winter produce. A late frost and flooding killed a lot of the crops. The second issue: energy prices. The war in Ukraine has caused energy prices in Europe to spike. So growing tomatoes in greenhouses, as they do in the U.K. and the Netherlands, has gotten so expensive, a lot of farmers haven't done it this year, which has further cut back on supply. But a lot of people are also pointing to Brexit as a culprit. Now that the U.K. isn't part of the all-important market — the European Union — it doesn't have as much muscle with suppliers when times are tight. It's in the back of the tomato line.<sup>6</sup>
- **Sky-High Car Prices Have Only One Direction to Go From Here:** For much of the past three years, car prices knew one direction: upward. This was simple economics: There was far more demand for new vehicles than manufacturers could meet due to pandemic-related disruptions. As chips, wire harnesses and other components in short supply flow more freely again, a slow but inevitable march to normalization has begun. Tesla and Ford were among the manufacturers making noteworthy cuts the last couple months, with the latter predicting new-vehicle pricing will fall 5% in the US this year.<sup>7</sup>

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## Economic Definitions

**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.

**The Federal Reserve Bank of Dallas:** The Federal Reserve Bank of Dallas (Dallas Fed) is part of the Federal Reserve System, the central bank of the United States.

**The Dallas Fed Manufacturing Index:** The Dallas Fed Manufacturing Index measures the performance of manufacturing sector in the state of Texas. The index is derived from a survey of around 100 business executives and tracks variables such as output, employment, orders and prices.

**Initial unemployment claims:** Initial unemployment claims track the number of people who have filed jobless claims for the first time during the specified period with the appropriate government labor office. This number represents an inflow of people receiving unemployment benefits.

**Pending Home Sales:** This concept tracks signed real estate contracts for existing single-family homes, condos and co-ops that have not yet closed. As such it is a leading indicator for existing home sales.

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

## 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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<sup>1</sup> Data Obtained from Bloomberg as of 03/3/2023.

<sup>2</sup> [Texas Manufacturing Outlook Survey - Dallasfed.org](#)

<sup>3</sup> [ISM Report On Business® \(ismworld.org\)](#)

<sup>4</sup> Data Obtained from Morningstar as of 03/3/2023.

<sup>5</sup> [Apartment Rents Fall as Crush of New Supply Hits Market - WSJ](#)

<sup>6</sup> [Let them eat... turnips? - NPR](#)

<sup>7</sup> [Sky-High Car Prices - Bloomberg](#)