Advisor Group

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MARKET VIEW WEEKLY

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ECONOMIC REVIEW[1]

- There were 10.8 million job openings, a moderate decrease from 11.2 million on the last day of December, the Labor Department reported in the Job Openings and Labor Turnover Survey, known as JOLTS.
    - The total number of open jobs per available unemployed worker, a figure that the Federal Reserve has been watching closely as it tries to cool the job market and ease inflation, was relatively unchanged at 1.9.
- Jobs report came in hotter than expected for February, though cooled from the jumbo number (+504K) in January.
    - Gain of 311k vs 225K consensus, +86k new jobs.
- The unemployment rate edged higher moving from 3.4% to 3.6%.
- Wage growth remains hot, though it is showing signs of easing.
    - Hourly earnings showed a 4.6% pay increase year over year, down from a 40-year high of 5.9% one year ago.
- Over the weekend, the Treasury, FDIC and Federal Reserve put out a joint statement announcing two key policy measures intended to stabilize the banking system following the failures of Silicon Valley Bank (SVB) and Signature Bank (SBNY).[2]
    - The first is that the FDIC will make all depositors whole in both SVB and SBNY, including uninsured depositors.
    - Second, the Bank Term Funding Program (BTFP), which effectively allows banks to borrow from the Federal Reserve against a broad range of collateral.

How does the jobs report impact you?

- While the January JOLTS report shows job openings are heading in the right direction for the Fed, the decline is far too modest to convince that labor market conditions are cooling enough to bring down inflation.
- It is important to note that Layoffs, which have been extraordinarily low outside of some high-profile companies mostly in the tech sector, rose by 241,000, to 1.7 million. That is the highest number since December 2020.[3]
- This may be a sign of what the Fed is currently expecting. The Fed is currently expecting to see about 2 million put out of a job this year in order to tamp down inflation.

A LOOK FORWARD[1]

- This week's upcoming economic indicators will have investors focusing in on inflation and consumer confidence
    - On Tuesday we will receive CPI data. The headline reading is expected to decrease on a year over year basis from 6.4% to 6.0%.
    - On Wednesday we will receive Producer Price Index (PPI) data. The headline reading is expected to decrease on a year over year basis from 6.0% to 5.4%.
    - On Friday we will receive the University of Michigan Consumer Sentiment Index. The index reading is expected to remain flat from the month prior at 67.0

How do inflation and consumer confidence impact you?

- While headline inflation has been moving lower since its peak in June 2022, we have seen data more recently point to mixed outcomes, with better labor market and consumer data offset by softer manufacturing trends. In particular, services inflation – driven by a strong labor market and higher wage gains, continues to exceed expectations and keep inflation elevated. In fact, we just saw that unit labor cost data for the fourth quarter came in at 3.2% annualized, well above expectations for a 1.6% growth rate, further evidence that wage gains have yet to meaningfully ease. Ultimately, with the labor market data continuing to come in hotter than expected, the stakes are high for inflation readings. Fed chair Jerome Powell said last week the central bank could return to a larger size interest rate increase at its policy meeting later this month if other data pointed to re-heating economic activity.

MARKET UPDATE[4]

Market Index Returns as of 3/10/23	WTD	QTD	YTD	1 YR	3 YR	5 YR
S&P 500 TR USD	-4.51%	0.92%	0.92%	-7.79%	13.94%	8.67%
NASDAQ Composite TR USD	-4.68%	6.63%	6.63%	-14.40%	12.83%	9.07%
DJ Industrial Average TR USD	-4.35%	-3.24%	-3.24%	-1.05%	12.97%	7.03%
Russell Mid Cap TR USD	-6.86%	0.52%	0.52%	-5.58%	13.82%	6.54%
Russell 2000 TR USD	-8.03%	0.89%	0.89%	-9.13%	13.35%	3.46%
MSCI EAFE NR USD	-0.76%	5.96%	5.96%	3.22%	9.86%	2.75%
MSCI EM NR USD	-3.29%	0.03%	0.03%	-9.50%	2.71%	-2.24%
Bloomberg US Agg Bond TR USD	1.17%	1.45%	1.45%	-7.35%	-3.47%	0.76%
Bloomberg US Corporate High Yield TR USD	-0.90%	1.87%	1.87%	-4.21%	2.75%	2.77%
Bloomberg Global Aggregate TR USD	1.31%	-0.35%	-0.35%	-13.56%	-5.19%	-1.57%

OBSERVATIONS

- Both U.S. stocks and global stocks sold off last week as fears over economic and market contagion due to the collapse of Silicon Valley Bank (SVB) took center stage.
- As a result, small caps underperformed their large cap peers with the Russell 2000 Index down -8.03% for the week compared to the Russell Mid Cap Index down -6.86% and the S&P 500 Index down -4.51%
- On the other hand, bonds had a very positive week as yields contracted significantly (the 10-year yield fell from 3.9% to 3.4% within two days).
- As a result, the Bloomberg US AGG Bond index returned 1.17%, significantly outperforming equity indexes.

BY THE NUMBERS

- **U.S. Takes Steps to Stem Bank Fallout:** U.S. regulators took control of a second bank Sunday and announced emergency measures to ease fears depositors might pull their money from smaller lenders after the swift collapse late last week of Silicon Valley Bank. The measures, which include guaranteeing all deposits of SVB, were designed to shore up wavering confidence in the banking system. They were jointly announced Sunday night by the Treasury Department, the Federal Reserve and the Federal Deposit Insurance Corp. Regulators announced they had taken control of Signature Bank, one of the main banks for cryptocurrency companies, on Sunday. The New York bank's depositors will be made whole, officials said. A senior Treasury official said the steps didn't constitute a bailout because stock and bondholders in SVB and Signature wouldn't be protected.[5]

- **International Travel:** According to the U.S. National Travel and Tourism Office, 62.8 million international visitors will come to the U.S. in 2023, up 21.2 percent from the 51.8 million who visited in 2022. That's still south of the 79.4 million who visited in 2019, but the office can project that 79.9 million people will visit in 2024, finally beating that pre-pandemic record. The office expects growth to continue, with the Commerce Department goal of 90 million international visitors by 2027 seen as very reachable. Excluding Mexico and Canada, the office expects 29.2 million overseas visitors in 2023, down from 40.4 million in 2019, with the projection that will hit 40.3 million by 2027.[6]

- **Daycare at work:** The country is about 58,000 daycare workers, or around 6%, short of February 2020 levels, an analysis of federal data by the Center for the Study of Child Care Employment at the University of California, Berkeley shows. Among women who dropped out of the workforce in the Covid-19 era, one-third said the lack or expense of child care was a top reason, while 20% of men who left said so, according to a 2022 survey by McKinsey & Co. Overall, company-provided child care is rare: Fewer than 6% of employers offer it at or near their workplaces, according to a 2022 survey by the Society for Human Resource Management.[7]

Economic Definitions

Employment Situation Summary (Jobs Report): The Employment Situation Summary released by the US Bureau of Labor Statistics is a report that presents statistics from two monthly surveys. The household survey measures labor force status, including unemployment, by demographic characteristics. The establishment survey measures nonfarm employment, hours, and earnings by industry.

Nonfarm Payrolls: This indicator measures the number of employees on business payrolls. It is also sometimes referred to as establishment survey employment to distinguish it from the household survey measure of employment.

Initial Jobless 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.

Job Openings – JOLTS: This concept tracks the number of specific job openings in an economy. Job vacancies generally include either newly created or unoccupied positions (or those that are about to become vacant) where an employer is taking specific actions to fill these positions.

Unemployment Rate: The unemployment rate tracks the number of unemployed persons as a percentage of the labor force (the total number of employed plus unemployed). These figures generally come from a household labor force survey.

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

US Treasury: The U.S. Treasury, created in 1789, is the government department responsible for issuing all Treasury bonds, notes, and bills.

FDIC: The Federal Deposit Insurance Corporation (FDIC) is an independent agency created by Congress to maintain stability and public confidence in the nation's financial system.

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.

Producer Prices - PPI (headline and core): Producer prices (output) are a measure of the change in the price of goods as they leave their place of production (i.e. prices received by domestic producers for their outputs either on the domestic or foreign market).

University of Michigan Consumer Sentiment Index: Consumer confidence tracks sentiment among households or consumers. The results are based on surveys conducted among a random sample of households. Target Audience: representative sample of US households (excluding Alaska and Hawaii). Surveys of Consumers collects data on consumer attitudes and expectations summarized in the Consumer Sentiment, in order to determine the changes in consumers' willingness to buy and to predict their subsequent discretionary expenditures. This Index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. Components of the Index of Consumer Sentiment are included in the Leading Indicator Composite Index. Unit: Index (Q1 1966=100)

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 03/10/2023.
[2] US Moves to Help Depositors - Bloomberg.com
[3] JOLTS - nytimes.com
[4] Data Obtained from Morningstar as of 03/10/2023.
[5] U.S. Takes Steps to Stem Bank Fallout - WSJ.com
[6] International Travel - skift.com
[7] Daycare at Work - WSJ.com