Weekly Investment Insights

May 28, 2024

Key Takeaways:

- Existing and new home sales decline more than expected.
- Fed suggests there is no hurry to cut rates.
- Initial reports on manufacturing and services improve.
- Global equities lower, but U.S. tech outperforms.
- Yields move higher as traders slash rate cut expectations.
- Commodities lower driven by crude oil and gold prices.

Weekly Economic Recap –

Housing Data Under Pressure

Sales of existing homes fell 1.9% in April while the supply of homes remained historically tight. There is ~3.5 months' supply at the current sales pace, where 6-month supply is considered a balanced market. First-time buyers made up ~33% of the month's sales, up from 29%, previously.

The Minutes from the April 30/May 1 FOMC meeting confirmed officials lack confidence to move forward with interest rate cuts as inflationary pressures have remained elevated. In fact, "various officials mentioned a willingness to tighten policy further should risks to inflation materialize."

The S&P Global U.S. Manufacturing and Services survey came in better than expected for the month of May. The manufacturing component increased back into expansion territory (a level above 50). These data points are a precursor to what we may expect in the ISM Manufacturing and Services Index.

New home sales declined more than expected in April (-4.7% MoM). Three of the four regions surveyed (i.e., Northeast, South and West) saw sales decline while sales were slightly higher in the Midwest. The months' supply increased to 9.1 months, the highest since September 2022.

Durable goods orders increased more than expected in April (0.7%) as firms looked to continuing their focus on long-term investments. Increases at the headline level were broad-based, with increases in motor vehicles and machinery leading gains. Core durable goods orders, which is used in the GDP calculation, also increased more than expected (0.4% vs. 0.2% est.).

Weekly Market Recap –

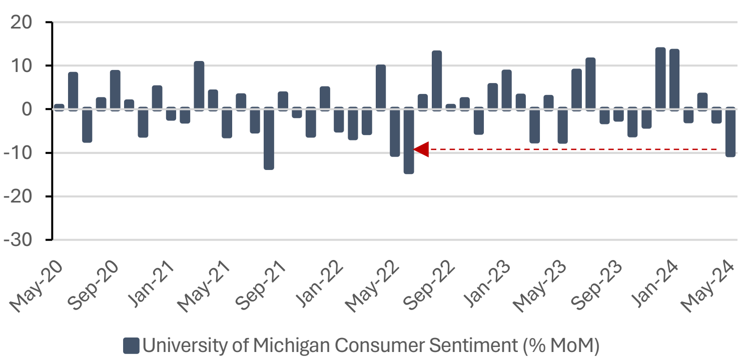
U.S. Growth Leads Global Markets Driven by AI Earnings

Equities: The MSCI AC World Index was lower for the first time in five weeks as economic indicators remained strong, pushing out bets for Fed rate cuts. U.S. equities led global equity markets driven by growth sectors after NVIDIA reported better than expected quarterly results. The tech-heavy Nasdaq was the best performing index in the U.S. and was higher for the fifth straight week. The Dow Jones Industrial Average fell for the first time in six weeks.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the first time in four weeks as Treasury yields moved higher as investors pushed out bets of Fed rate cuts further into the year. Floating rate instruments and leverage loans were the only two areas of fixed income positive for the week. Municipal bonds were the worst performing sector.

Commodities/FX: The Bloomberg Commodity Index fell for the first time in three weeks. Crude oil prices were lower as investors look ahead to the OPEC+ production decision later this week. Gold prices fell by the most since early December as Fed rate cut bets got pushed out further into the year. Copper fell the most since November 2022 after investors took profits when it surged to a record high.

Consumer Sentiment Falls by Most Since June 2022



Footnotes: Data is as of May 2024.
Source: FactSet Research Systems, Verdence Capital Advisors.

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Past performance is not indicative of future returns.

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Key Takeaways:

- Consumers getting stretched; worries about economic growth.
- Sentiment deteriorating across education and income levels.
- Consumers owe an aggregate $1.12 billion of credit card debt.
- Shelter costs continue to put a strain on consumers.
- Walmart earnings indicate higher-income earners shifting spending patterns.

Consumer Cracks Beginning to Widen

Consumers have been resilient in the years since the pandemic. Massive fiscal stimulus and a strong labor market have helped consumers absorb the highest rates of inflation since the 1980s. However, we are starting to see signs that the consumer may be running out of steam. This is important because the consumer makes up ~70% of GDP so when the consumer contracts, the economy typically does as well. In this weekly insights we focus on some of the signs that are warning us that the years of compounding inflation may finally be too much for the consumer to handle.

- **Confidence plummeting:** After remaining relatively unchanged for three months, the University of Michigan Consumer Sentiment Index fell in May at the fastest monthly pace since June 2022. The decrease in sentiment was broad-based across nearly all income and education levels. Respondents were specifically concerned about inflation and increased their year-ahead inflation expectations (3.3% vs. 3.2% prior). The report also stated consumers expressed worries that unemployment and interest rates would “move in an unfavorable direction in the year ahead.”
- **Credit card debt is a troubling sign:** Americans owe ~$1.12 trillion on outstanding credit card balances, with the average consumer owing over $6,200 on their outstanding balance.[1] According to Bankrate, the average credit card charges a ~20.66% interest rate.[2] In addition, Bankrate states, it would take an estimated 18 years to pay off the balance and cost more than $9,200 in interest if you were to pay only the minimum balance. The New York Federal Reserve indicated that as of the end of 2023, ~8.9% of credit card balances transitioned into delinquency and those 90+ days delinquent (i.e., “serious delinquencies”) reached the highest level since 2010.
- **Shelter costs squeeze consumers:** April’s Consumer Price Index showed shelter prices, which account for ~33% of the headline index, remain stubborn, increasing at an annualized rate of ~5.5%. Headline rent increased at a 0.4% monthly pace for the third straight month, while the 30YR fixed rate mortgage remains above 7%. Whether renting or looking to buy, consumers are feeling the cost.
- **Retail company earnings:** Major retailers, including Target and Walmart, recently reported earnings. Target cited consumers seem to be fatigued from high prices as they purchased fewer discretionary items and groceries. Walmart indicated seeing more higher-income consumers shifting purchases toward staples, such as food and health products, as “wallets are stretched,” according to CFO John Rainey.

The Bottom Line:

Consumer spending is the largest component of GDP and along with government spending has supported GDP growth since the pandemic. However, even though the rate of inflation is slowing it is evident that years of above average inflation are starting to take a toll on the consumer. In addition, the labor market is softening and wage growth is slowing so we expect the consumer to be strained for the remainder of the year at least. This presents a headwind to economic growth as we approach the Presidential elections and tackle the debate around the expiration of many tax cuts in 2025.

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Global Equities Fall on Central Bank Uncertainty

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	39,070	-2.3%	1.8%	0.3%	21.6%	4.4%
S&P 500	5,305	0.0%	4.7%	4.6%	30.9%	11.8%
Russell 1000 Growth	3,482	1.0%	6.8%	4.8%	39.6%	14.4%
Russell 1000 Value	1,735	-1.4%	1.7%	3.8%	20.9%	7.4%
Russell Midcap	3,292	-1.0%	2.5%	3.3%	23.9%	6.4%
Russell 2000	2,070	-1.2%	3.8%	3.0%	18.9%	2.6%
Nasdaq	16,921	1.4%	7.8%	6.0%	36.6%	13.1%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	793	-0.3%	4.3%	4.9%	23.5%	9.9%
MSCI EAFE (USD)	2,373	-0.5%	4.9%	4.9%	17.2%	7.8%
MSCI Europe ex UK (USD)	2,690	-0.2%	5.1%	5.8%	17.6%	8.8%
MSCI Japan (USD)	3,934	-0.3%	3.9%	-0.1%	19.0%	7.3%
MSCI UK (USD)	1,267	-0.7%	5.1%	10.4%	17.6%	9.8%
MSCI EM (USD)	1,090	-1.0%	5.0%	6.9%	15.1%	7.4%
MSCI Asia ex Japan (USD)	698	-0.8%	6.2%	9.1%	14.2%	9.4%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	5.1%	-0.2%	1.6%	0.4%	2.5%	-1.7%
U.S. Govt/Credit	5.0%	-0.2%	1.5%	0.4%	2.6%	-1.6%
U.S. 10 Year Treasury	4.5%	-0.2%	1.9%	-0.3%	-1.5%	-3.3%
U.S. TIPS (1-10YR)	4.9%	-0.1%	0.9%	1.2%	3.2%	0.2%
U.S. High Yield	8.0%	-0.2%	1.2%	1.4%	11.6%	1.6%
EM Bonds (USD)	7.2%	-0.5%	1.8%	2.0%	9.6%	1.5%
Municipal Bonds	3.8%	-0.9%	0.0%	-1.0%	3.7%	-1.5%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	246	-0.6%	2.7%	11.6%	10.2%	8.8%
Crude Oil (USD/bbl)	$79.1	-0.9%	-4.8%	0.5%	6.4%	7.4%
Gold ($/oz)	$2,351.0	-2.8%	0.7%	15.7%	20.9%	14.1%
Copper	$477.9	-4.4%	6.6%	27.1%	32.4%	25.0%
Wheat	$697.3	2.2%	13.1%	21.7%	4.6%	9.0%
U.S. Dollar	105	-0.2%	-1.5%	0.4%	0.2%	3.0%
VIX Index	12.4	-0.5%	-25.3%	-13.2%	-40.4%	-4.2%

Footnotes: Data is as of May 24, 2024.

Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1]: https://www.cnbc.com/2024/05/16/credit-card-balances-jump-8point5percent-year-over-year-delinquencies-rise.html
[2]: https://www.bankrate.com/finance/credit-cards/current-interest-rates/

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