Weekly Investment Insights

June 3, 2024

Key Takeaways:

- Consumer confidence higher, but concerns over inflation remain.
- Economic growth increases slower than expected on spending.
- Fed's preferred inflation gauge posts smallest advance of year.
- Value sectors outperform, but global equities lower.
- Fixed income relatively flat for the week.
- Commodities post worst performance since December.

Weekly Economic Recap –

GDP Slows, Fed's Inflation Gauge Cools

Home prices accelerated in March at the fastest annualized pace since October 2022 according to the S&P CoreLogic Index (+7.4%). The increase for March was led by New York, Cleveland and Chicago.

Consumer confidence unexpectedly rose in May for the first time in four months according to the Conference Board. The expectations index increased by the most since July 2023 driven by expectations for better labor market conditions in the year-ahead. Consumers remain concerned about inflation as the year-ahead inflation expectations increased to the highest level since December (5.4%).

The U.S. economy grew at a slower pace in the first quarter than initially reported (1.3% QoQ vs. 1.6% QoQ) as consumer spending was revised lower (2.0% QoQ vs. 2.5% est.). Net exports detracted from headline economic growth for the first time in two years.

Pending home sales fell 7.7% in April, the biggest drop since April 2020. Buyers were squeezed by higher mortgage rates during the period. Sales were lower in all regions but fell the most in the Midwest and West. The share of sellers cutting prices hit the highest level since 2002 (6.4%).

The Fed's preferred inflation gauge, PCE Core, increased in-line with consensus estimates (0.2% MoM), which was the smallest advance of the year. Inflation-adjusted consumer spending unexpectedly fell 0.1% as consumers decreased consumption for services and durable goods.

Weekly Market Recap –

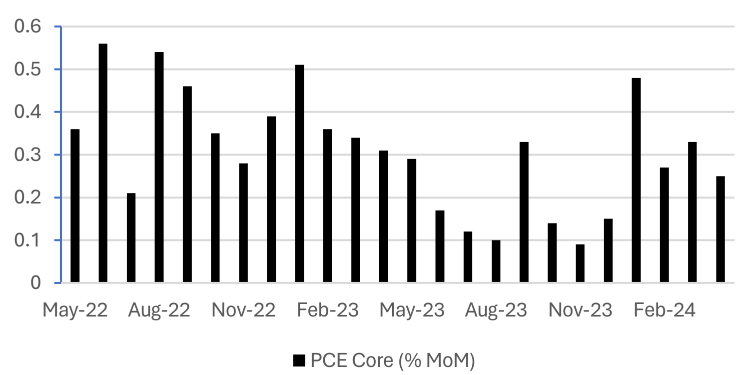
Value Sectors Outperform

Equities: The MSCI AC World Index was lower for the second straight week as consumers remain concerned about the economy. Major U.S. averages were lower for the week with the S&P 500 and Nasdaq each snapping five-week winning streaks, while the Dow Jones Industrial Average was lower for the second straight week. The small-cap Russell 2000 Index was the only average marginally higher. Value sectors outperformed growth sectors as investors shifted away from technology.

Fixed Income: The Bloomberg Barclays Aggregate Index was flat for the week as the rise in yields stalled on inflation data that came in as expected. Municipal bond prices fell the most of all fixed income sectors as Treasury yields were whipsawed during the week. U.S. TIPS were the best performing area of fixed income.

Commodities/FX: The Bloomberg Commodity Index fell for the second straight week and posted its worst return since December. Crude oil prices were lower on weak U.S. demand despite the kick-off to summer driving season. Agriculture products, including wheat, were lower as weather concerns remain.

PCE Core Increases at Slowest Pace This Year



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.

Key Takeaways:

- Inflation improving modestly, but signs still point to sticky pressures.
- Fed reaffirms stance of not having enough confidence to cut rates yet.
- U.S. tech trade remains red hot as Nasdaq posts best return since November.
- Investors favor quality fixed income.
- Commodity performance driven by wheat and gold prices climbing higher.

April Showers Brought May Flowers

Equity and bond markets staged an impressive turnaround in May after a dismal April performance despite mixed economic and inflation data which further pushed out expectations for Federal Reserve rate cuts this year. Fed officials remained committed to their efforts to combat inflation, indicating they need more confidence that inflation is heading to their target rate before cutting rates. This week, we review May from an economic data and asset class perspective.

- **Inflation is easing but still sticky:** The Fed's preferred inflation gauge, PCE Core, increased at the slowest monthly pace of the year. However, on an annualized basis, inflation at nearly every metric is growing well above the Fed's 2% target.
- **The Fed needs more confidence before cutting rates:** The Minutes from the April 30/May 1 FOMC meeting reaffirmed their stance that there is a lack of confidence to cut interest rates imminently.
- **Manufacturing activity weak:** The ISM Manufacturing Index has been in contraction territory for 18 out of the past 19 months while prices paid remain elevated.
- **Consumer spending slows:** Retail sales excluding gas, auto, building materials and food dropped at the fastest pace in four months as inflation is impacting spending.
- **Housing struggles:** As the mortgage rate moved higher, housing data struggled during the month. Existing, new and pending home sales all dropped during the month.

Global Equities – U.S. leads: The MSCI AC World Index posted its best month in three months on a robust earnings season out of the U.S.

- **U.S. growth trade remains red hot:** The Russell 3000 Growth Index outperformed its value counterpart by the most in three months. The tech-heavy Nasdaq Index recorded its best return since November on strong earnings results.
- **Developed markets lead international performance:** Developed markets (MSCI EAFE) outperformed emerging markets (MSCI EM) in May as investors continued to digest global inflation data and its implications for central bank monetary policy moving forward.

Fixed Income – Quality leads rally: The Bloomberg Aggregate Index posted its best monthly return of the year as Treasury yields retreated to end the month. A cool PCE inflation reading at month end led yields to drop.

- **Safer areas of fixed income rally:** Investment grade corporate bonds, and mortgage-backed securities led the gains in fixed income as yields dropped.
- **Municipals underperform the market:** Municipal bonds were lower for the third straight month as Treasuries were volatile for the month and supply was an issue surrounding unwinding of Silicon Valley Bank's portfolio.

Commodities – Supply remains a concern. The Bloomberg Commodity Index was higher for the third straight month on supply concerns.

- **Grains led the gains:** Wheat posted its best performance since October, due to global weather concerns.
- **Precious metals remain strong:** Gold prices were higher for the fourth straight month as investors continued to pile into the safe haven amid rate path uncertainty.

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Global Equities Fall on Weak GDP in the U.S.

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	38,686	-0.9%	2.6%	-0.3%	20.0%	3.5%
S&P 500	5,278	-0.5%	5.0%	3.9%	28.2%	11.3%
Russell 1000 Growth	3,440	-1.2%	6.0%	3.3%	33.6%	13.1%
Russell 1000 Value	1,738	0.2%	3.2%	3.7%	21.7%	7.6%
Russell Midcap	3,268	-0.7%	2.9%	1.5%	23.1%	5.7%
Russell 2000	2,070	0.0%	5.0%	1.1%	20.1%	2.7%
Nasdaq	16,735	-1.1%	7.0%	4.2%	30.4%	11.8%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	786	-0.7%	4.1%	3.8%	23.6%	8.9%
MSCI EAFE (USD)	2,356	-0.1%	3.9%	4.5%	18.5%	7.1%
MSCI Europe ex UK (USD)	2,670	-0.2%	5.2%	5.7%	20.0%	8.1%
MSCI Japan (USD)	3,925	0.8%	1.3%	-0.7%	18.6%	7.0%
MSCI UK (USD)	1,255	-0.6%	3.6%	10.3%	18.9%	8.8%
MSCI EM (USD)	1,049	-3.1%	0.6%	3.5%	12.4%	3.4%
MSCI Asia ex Japan (USD)	671	-2.9%	1.6%	5.4%	11.2%	5.3%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	5.1%	0.0%	1.7%	0.0%	1.3%	-1.6%
U.S. Govt/Credit	5.0%	0.0%	1.6%	0.1%	1.5%	-1.5%
U.S. 10 Year Treasury	4.5%	0.0%	1.9%	-0.9%	-3.1%	-3.3%
U.S. TIPS (1-10YR)	4.9%	0.4%	1.4%	1.2%	3.0%	0.6%
U.S. High Yield	8.0%	0.0%	1.1%	1.3%	11.2%	1.6%
EM Bonds (USD)	7.2%	0.0%	1.7%	1.8%	8.9%	1.6%
Municipal Bonds	3.9%	-0.4%	-0.3%	-1.5%	2.7%	-1.9%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	242	-1.8%	1.8%	8.0%	10.9%	6.8%
Crude Oil (USD/bbl)	$76.6	-1.5%	-1.5%	-3.4%	4.9%	4.9%
Gold ($/oz)	$2,327.3	-0.7%	1.4%	12.1%	19.8%	13.1%
Copper	$460.2	-1.9%	2.5%	21.6%	25.7%	20.5%
Wheat	$678.5	0.0%	12.0%	24.2%	2.1%	7.9%
U.S. Dollar	105	-0.2%	-0.4%	0.7%	0.5%	3.2%
VIX Index	12.9	8.3%	-17.4%	-3.6%	-28.0%	3.8%

Footnotes: Data is as of May 31, 2024.

Source: Bloomberg Finance LP, Verdence Capital Advisors.

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