OBSERVATIONS

- Markets were up last week in the wake of generally soft economic data. The S&P 500 hit another record high last Tuesday and gained +0.6% for the week, while small caps (Russell 2000) rose +0.8% and mid-caps (Russell Midcap Index) increased +1.0%. Meanwhile the yield on a 10-year U.S. Treasury increased by +4 basis points to end the week at 4.26%.[1]
- Nvidia (NVDA) became the largest U.S. company by market capitalization, passing Microsoft last week. NVDA's stock price grinds higher with a YTD return of over +155%. The US tech sector (S&P 500 Technology sub-sector Index) continues to drive market performance with a YTD return of +28.8%.[1]
- Headline retail sales in May increased by +0.1% month-over-month (MoM), which was below expectations and retail sales excluding autos actually fell by -0.1% MoM in May.[1]
- Industrial production increased by +0.9% MoM in May—nearly triple the consensus estimate—and capacity utilization also increased to 78.7 up from April's 78.2 reading.[1]
- New housing starts fell -5.5% MoM in May, well below expectations for a slight gain, to 1.277 million (annualized rate). Similarly, new building permits fell -3.8% MoM in May. On an annual basis, new housing starts were down -19.3% year-over-year (YoY), while permits are down -9.5% YoY.[1]
- Existing home sales data disappointed last week falling to 4.11 million (annualized rate) down -0.7% MoM from April. Existing homes were down -2.8% year-over-year (YoY) basis, and May is now the 33rd consecutive month with negative YoY existing home sales.[1]
- The Conference Board Leading Economic Index—an early indicator of turning points in the US business cycle—decreased by 0.5% MoM and Conference Board economists indicate that this could mean two quarters of less than 1% GDP growth.[1]

EXPECTATIONS

- Fed fund futures indicate that markets have priced in at least one -25 basis point cut this year, with roughly 70% odds that it occurs in September, but they have also priced in about an 85% chance of a second -25 basis point cut occurring in December, as Fed speakers generally offered confidence last week that inflation should gradually decline over the remainder of 2024.[1]
- Meanwhile, despite additional progress in its fight against inflation, the Bank of England (BoE) held rates steady last week at 5.25%. Noting that despite headline inflation falling to 2.0 YoY, core inflation—which removes volatile food and energy—remained at 3.5% YoY and thus additional patience was needed to ensure that prices were moving substantially towards their 2% target.[2]

ONE MORE THOUGHT: *Financial conditions have eased in the US helping the US corporate sector*[1]

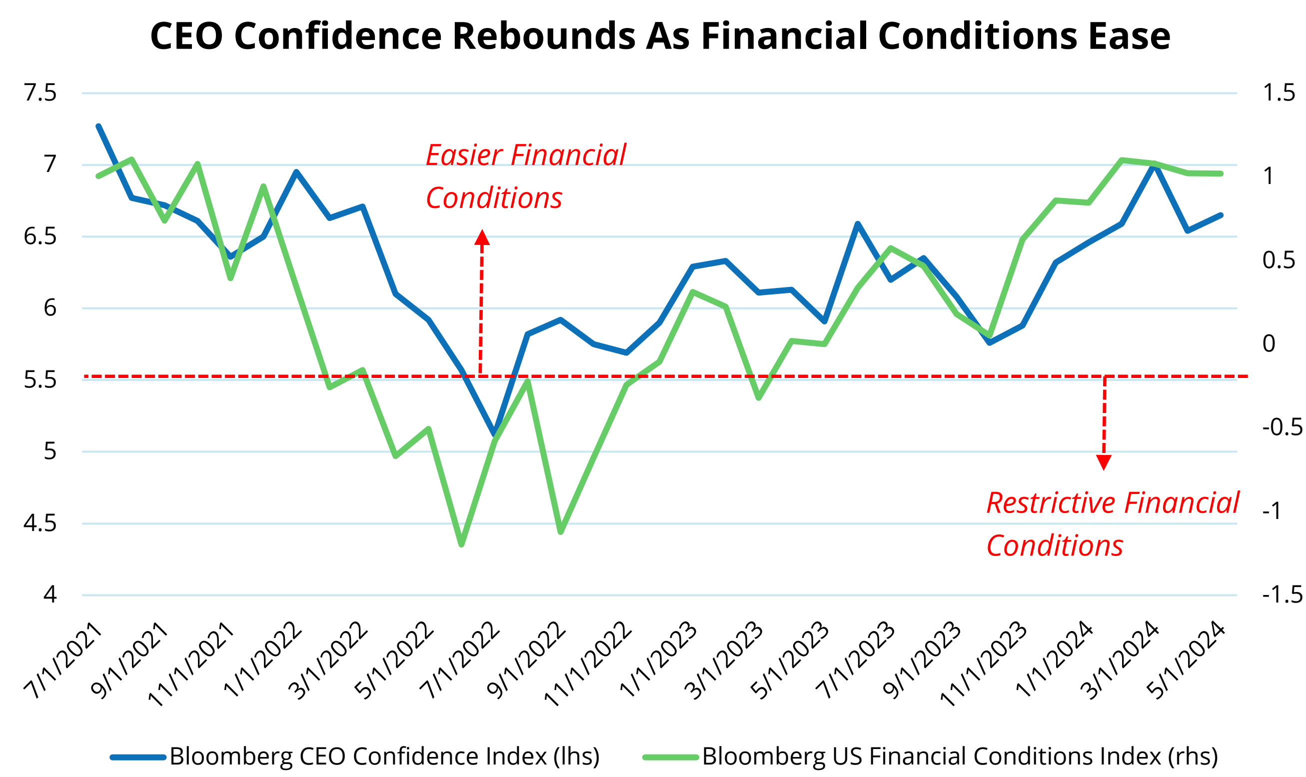
The S&P 500 is near record highs and has already gained +15.4% for the year. In the meantime, the Federal Reserve stopped its rate hiking cycle in mid-2023 and has signaled that it will eventually be able to cut rates either later this year or in early 2025. In this context, various measures of overall financial conditions suggest that the market environment is more hospitable for the US corporate sector than in 2022 and 2023. The Bloomberg US Financial Conditions Index (see Chart of the Week) tracks the overall level of financial stress in the US money, bond, and equity markets to help assess the availability and cost of credit. In particular, the index combines spreads between various US fixed income markets as well as the overall direction and volatility with US equity markets. By this

[1] *Bloomberg LP, as of 6/21/2024*

[2] *https://www.ft.com/content/1c7beb93-4809-407d-bc85-7e320287a1d6*

measure, financial conditions were at their most restrictive in the middle portion of 2022 when markets were pricing in aggressive Fed rate hikes and the likelihood of an eventual US recession—historically Fed hiking cycles are associated with precipitating a recession. However, by early 2023 markets began to rally as US economic growth remained resilient in the face of the Fed rate hikes and the spreads on various fixed income markets began to narrow. As this happened, CEO confidence began to rebound and track higher. So, as we head into the back half of 2024 it is worth noting that credit spreads on a variety of fixed income markets—such as investment grade and high yield bonds—are all below average and the US economy remains on stable footing. The average yield on an investment grade bond has fallen from about 6.4% last October to under 5.5% currently, while the yield on a high yield bond has fallen from 9.5% down to 7.9% in June. These easing financial conditions in the first half of the year provide a reasonable backdrop for corporate America to navigate any challenges that may arise in H2-2024.

CHART OF THE WEEK



Source: Clearstead, Bloomberg as 6/21/2024

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