



WEEK OF MAY 8, 2023

Market Update

Quick Hits

1. **Report releases:** Hiring accelerates in April
2. **Financial market data:** Investors shifted toward growth and international stocks
3. **Looking ahead:** Investors will focus on inflationary data following the Federal Reserve (Fed) meeting

Report Releases: May 1–5, 2023

ISM Manufacturing April (Monday) (Tuesday)

Manufacturer confidence improved more than expected in April. But the index still sits in contractionary territory, due in part to a continued slowdown in new orders for the manufacturing industry.

- Expected/prior ISM Manufacturing index: 46.8/46.3
- Actual ISM Manufacturing index: 47.1



ISM Services April (Wednesday)

Service sector confidence also improved more than expected in April. Despite the improvements for both service sector and manufacturing confidence during the month, business confidence levels remain well below post-pandemic highs.

- Expected/prior ISM Services index: 51.8/51.2
- Actual ISM Services index: 51.9



Federal Open Market Committee (FOMC) Rate Decision (Wednesday)

The Fed announced an interest rate of 25 basis points (bps) at this meeting, which was in line with investor and economist expectations and brought the upper limit for the federal funds rate to 5.25 percent. The press release and comments from Fed Chair Jerome Powell indicated that the Fed may pause its current hiking cycle as early as its next meeting in June.



Employment Report March (Friday)

Hiring accelerated in April, as 253,000 jobs were added against calls for a more modest 185,000. The strong result indicates that the labor market remained resilient despite uncertainty created by recent high-profile bank failures.



>> The Takeaway

- ISM Manufacturing and Services indices both improved more than expected, indicating that business confidence is recovering quickly
- The FOMC hiked 25 bps, but indicated a pause may be necessary based on a stronger-than-expected employment report

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	-0.78%	-0.78%	8.33%	1.49%
Nasdaq Composite	0.09%	0.09%	17.22%	0.23%
DJIA	-1.23%	-1.23%	2.25%	4.26%
MSCI EAFE	0.16%	0.16%	11.70%	10.66%
MSCI Emerging Markets	0.51%	0.51%	3.30%	-4.50%
Russell 2000	-0.49%	-0.49%	0.40%	-4.49%

Source: Bloomberg, as of May 5, 2023

Stocks were mixed last week. The S&P 500 and Dow Jones Industrial Average were down slightly amid continued regional bank concerns. But the Nasdaq Composite, MSCI EAFE, and MSCI Emerging Markets moved higher. The news of a potential pause on rate hikes from the Fed supported tech stocks and international stocks, which provide diversification away from the U.S. economy while it deals with regional bank concerns and elevated short-term rates. Better-than-expected earnings from Apple also supported technology stocks as iPhone sales came in higher than forecasted.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.05%	3.53%	0.23%
U.S. Treasury	0.06%	3.62%	-0.11%
U.S. Mortgages	0.20%	3.27%	0.01%
Municipal Bond	0.35%	2.90%	3.78%

Source: Bloomberg, as of May 5, 2023

The front end of the curve was the main story last week as the 1-month U.S. Treasury yield moved dramatically higher on the back of Friday's employment report. The 1-month yield rose 115 bps (to 5.46 percent) and the 3-month yield rose 15 bps (to 5.26 percent). Beyond this point, we saw yields continue to fall as the longer-term growth and inflation picture has remained muted. The 2-year, 5-year, and 10-year dropped 14 bps (to 3.92 percent), 12 bps (to 3.42 percent), and 1 bp (to 3.45 percent), respectively. Lastly, the 30-year yield increased 9 bps.

>> The Takeaway

- Investors are moving away from value stocks as they expect the Fed to change its rate policy
- Short-term bills sold off last week as investors are pricing in a pivot from the Fed this year

Looking Ahead

Coming off the back of the Fed's rate decision, investors will be keeping an eye on inflationary data via Consumer Price Index (CPI) and Producer Price Index (PPI) data, both slated for release this week.

- Monday will kick the week off with the **wholesale trade sales and inventories** for March. After a large buildup in inventories in late 2021 and early 2022, inventories have come down significantly for wholesalers. Expectations are that inventories increased 0.1 percent from last month.
- Wednesday will see the release of **CPI data** for April. Headline consumer prices are expected to show a modest increase in April, while core inflation is set to slow.
- This will be followed on Thursday with **PPI data** for April. Producer prices are also expected to increase modestly in April, following a surprising drop in producer prices in March. On a year-over-year basis, producer inflation is set to slow (both core and headline).
- Finally, Friday will see the preliminary release of the **University of Michigan consumer sentiment survey** for May. The first estimate for consumer sentiment in May is expected to show a modest decline in confidence for the month as the impact from the First Republic sale is expected to weigh on sentiment.





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capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.

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