

## August 14, 2023 – Investment Commentary

### Equities

US equities returned -0.3% last week in choppy trading. Core CPI rose 1.6% in July (4.7% yoy) lower than expectations and boosted market hopes for a pause from the Fed in September. However, a higher-than-expected PPI number on Friday, accompanied by a spike in Treasury yields has the market worried that the Fed will keep rates higher for longer. The technology-heavy NASDAQ continued its slide and is now 5% off its recent high last month. Energy (+3.6%) and healthcare (+2.5%) were the best performing sectors in the S&P 500; information technology (-2.8%) was the laggard. EAFE markets returned -0.6% led by down Japan (-1.0%). EM markets returned -1.9% led lower by China (-3.7%) where problems in the debt-laden property sector have emerged again.

From a valuation perspective, most markets are within  $\pm 1$  standard deviation based on historical forward P/E ratios though the NASDAQ is up to +1.3. The S&P 500 (US Large Cap) and NASDAQ trade above their 20-year averages based on forward P/E ratios as does MSCI EM (Emerging Market Equities), while the Russell Midcap (US Midcap) and Russell 2000 (US Small Cap) trade below, as does the MSCI EAFE (Non-US Developed Market Equities).

### Fixed Income

Investment grade fixed income sectors had mixed returns as rates rose across the curve. Municipals returned 0.3%, while US AGG returned -0.6% and US IG returned -0.7%. HY bonds returned 0.3% as spreads compressed slightly while bank loans returned +0.3%. EM debt returned 0.2% even as the US dollar rose.

### Rates

Rates rose across the curve. A higher-than-expected PPI number and a sloppy 30-year Treasury auction contributed to pushing rates higher. The recession-watch 3M-10Y spread compressed 10bps and closed the week at -128, still signaling recession in coming months. The 2Y-10Y spread widened 1bp and is now -74. Rates were higher in Europe and spiked in the U.K. where economic growth came in higher than expected. The BTP-Bund spread fell 3bps to 1.62%. 5-year and 10-year breakeven inflation expectations rose slightly and now sit at 2.32% and 2.37% respectively; the 10Y real yield rose 8bps to 1.74%. The markets expect rates to end the year at current levels though the probability of an additional hike has been moving higher over the last few weeks and now sits at 31%. For now, the peak rate for this cycle is expected to be 5.5%, which is the current target rate.

### Currencies/Commodities

The dollar rose 0.8% while the commodities complex rose 0.4%. Brent rose 0.7% to \$87/bbl on the expectation of supply constraints. US natural gas rose 7.5% while European gas rose 21.7%.

### Market Monitors

Volatility fell for equities and bonds (VIX = 15, MOVE = 112). Market sentiment dropped to 19 from a very bullish 28 last week.

#### *Disclosures*

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