WEEKLY MARKET UPDATE | MAY 19, 2023

Stocks take a peak before turning away.

The economy

- U.S. stock prices finished in positive territory during the week ending May 19, 2023. The market initially was bolstered by growing optimism that the debt-ceiling standoff may be nearing a resolution, as well as a rally in the banking sector, spurred by diminishing concerns about the stability of regional banks. However, stocks declined on Friday after a breakdown in the debt-ceiling talks and Federal Reserve (Fed) Chair Jerome Powell's comments regarding monetary policy. Prior to the downturn, both the S&P 500 Index, which tracks the performance of U.S. large-cap stocks, and the tech-heavy Nasdaq Composite Index reached year-to-date highs.
- President Joe Biden and Kevin McCarthy, Speaker of the U.S. House of Representatives, agreed to one-on-one negotiations regarding an increase in the U.S. government's $31.4 trillion debt limit. U.S. Treasury Secretary Janet Yellen has warned that the U.S. could default on its financial obligations as soon as June 1 if the debt ceiling is not raised. Biden observed that the debt-ceiling discussions with Republican leaders in the U.S. Congress had been productive. On Friday, however, McCarthy said that the two sides had reached an impasse.
- During a news conference on Friday, Fed Chair Powell stated that the problems in the banking sector may eliminate the need for the central bank to maintain its interest rate-hiking cycle. "The risks of doing too much versus doing too little are becoming more balanced." However, he cautioned that "[f]ailure to get inflation down would not only prolong the pain but also increase, ultimately, the social costs of getting back price stability, causing even greater harm for families and businesses."
- Regional bank stocks rose sharply on Wednesday after an Arizona-based regional bank reported that its deposits had increased by more than $2 billion since the end of the first quarter. Nonetheless, the KBW Regional Banking Index, which tracks the performance of publicly traded U.S. regional banks and thrifts, is down roughly 27% year to date.
- There were signs of continued resilience in the U.S. labor market. The U.S. Department of Labor reported that initial unemployment insurance claims decreased by 22,000 to 242,000 for the week ending May 13, but rose by 20,000 year-over-year. The four-week moving average of initial claims fell 1,000 to 244,250, but increased 30,000 from the four-week average of 214,250 for the same period in 2022.
- According to the Census Bureau, U.S. retail sales—a gauge of consumer spending, which comprises more than two-thirds of the country's gross domestic product (GDP)—increased 0.4% in April and 1.6% compared to the same period in 2022. Core sales, which exclude motor vehicles and parts, as well as gasoline stations, rose 0.6% and 4.3% for the month and year-over-year, respectively. Miscellaneous store retailers and nonstore retailers garnered the largest sales increases in April, while sales for food services and drinking places, along with nonstore retailers, posted the most notable gains over the previous 12-month period.
- The Mortgage Bankers Association (MBA) reported that mortgage applications in the U.S. decreased 5.7% during the week ending May 12 compared to the previous seven-day period. The MBA's Refinance Index fell 8% from the previous week and plummeted 43% versus the same period in 2022, while the Purchase Index declined 5% compared with the previous week and tumbled 26% year-over-year. According to Freddie Mac, the average interest rate on a 30-year fixed-rate mortgage ticked up four basis points to 6.39% during the seven-day period ending May 18, but was down from a peak of 7.08% in early November of last year.
- Higher mortgage rates continue to weigh on the U.S. housing market. The National Association of Realtors (NAR) reported that sales of existing homes fell 3.4% in April and tumbled 23.2% versus the same period in 2022. The median existing-home price was down 1.7% year-over-year to $388,000—the biggest 12-month decline since January 2012. The inventory of unsold existing homes increased 7.2% from the previous month to 1.04 million at the end of April, equivalent to 2.9 months' supply at the current monthly sales pace. According to the NAR, a six-month supply of homes historically has indicated a "balanced market," in which prices rise modestly. Inventories of greater than six months typically favor buyers; inventories of less than six months typically favor sellers.

Stocks

- Global equities closed up for the week. Emerging markets fared better than developed markets.
- U.S. equities recorded positive returns. Information technology and telecommunications were the top performers, while utilities and consumer staples lagged. Growth stocks led value, while small caps outperformed large caps.

Bonds

- The 10-year U.S. Treasury note yield rose to 3.68% during the week.
- Global bond markets retreated for the week.
- High-yield bonds led the markets, followed by corporate bonds and government bonds.

The Numbers as of May 19, 2023	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	1.0%	8.4%	5.9%	655.9
MSCI EAFE ($)	-0.5%	8.9%	8.1%	2116.3
MSCI Emerging Mkts ($)	0.5%	2.3%	-3.6%	978.2
US & Canadian Equities				
Dow Jones Industrials ($)	0.4%	0.8%	7.0%	33426.6
S&P 500 ($)	1.6%	9.2%	7.5%	4192.0
NASDAQ ($)	3.0%	20.9%	11.1%	12657.9
S&P/ TSX Composite (C$)	-0.3%	5.0%	0.8%	20351.1
UK & European Equities				
FTSE All-Share (£)	0.1%	3.8%	4.7%	4228.3
MSCI Europe ex UK (€)	0.1%	11.2%	11.1%	1647.9
Asian Equities				
Topix (¥)	3.1%	14.3%	16.2%	2161.7
Hong Kong Hang Seng ($)	-0.9%	-1.7%	-3.3%	19450.6
MSCI Asia Pac. Ex-Japan ($)	0.4%	1.4%	-3.1%	512.5
Latin American Equities				
MSCI EMF Latin America ($)	-0.1%	8.5%	-0.6%	2310.2
Mexican Bolsa (peso)	-1.1%	12.1%	6.0%	54344.3
Brazilian Bovespa (real)	2.2%	1.0%	3.6%	110827.3
Commodities ($)				
West Texas Intermediate Spot	2.2%	-10.9%	-36.2%	71.6
Gold Spot Price	-1.8%	8.5%	7.3%	1978.4
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-1.5%	1.6%	-4.0%	453.1
JPMorgan Emerging Mkt Bond	-1.3%	1.5%	1.1%	779.9
10-Year Yield Change (basis points*)				
US Treasury	22	-20	84	3.68%
UK Gilt	22	33	213	3.99%
German Bund	15	-14	148	2.43%
Japan Govt Bond	1	-2	16	0.40%
Canada Govt Bond	25	-17	25	3.13%
Currency Returns**				
US$ per euro	-0.4%	0.9%	2.0%	1.080
Yen per US$	1.7%	5.2%	7.9%	137.94
US$ per £	-0.1%	3.0%	-0.2%	1.245
C$ per US$	-0.3%	-0.4%	5.3%	1.351

Source: Bloomberg. Equity-index returns are price only, others are total return.

*100 basis points = 1 percentage point.

**Increases in U.S. dollars (USD) per euro or pound indicate a decline in the value of the USD; increases in yen or Canadian dollars per USD indicate an increase in the value of the USD.

Important information

Index returns are for illustrative purposes only and do not represent actual investment performance. Index performance returns do not reflect any management fees, transaction costs or expenses. Indexes are unmanaged, and one cannot invest directly in an index. Past performance does not guarantee future results.

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