WEEKLY MARKET UPDATE | MAY 26, 2023

U.S. debt on watch.

The economy

- U.S. stock prices finished mixed during the week ending May 26, 2023. The tech-heavy Nasdaq Composite Index and the S&P 500 Index, which tracks the performance of U.S. large-cap stocks, ended in positive territory on strong earnings guidance from a large graphics-chip manufacturer. The continued uncertainty around raising the nation's debt ceiling drove the Dow Jones Industrial Average lower.
- Ratings agency Fitch placed the United States' AAA-rated debt on "Rating Watch Negative," citing, "increased political partisanship that is hindering reaching a resolution to raise or suspend the debt limit." Similarly, DBRS Morningstar, the world's fourth largest credit ratings agency, warned, "We are concerned that political polarization in the context of a divided congress poses some risk to the U.S. government's willingness to ensure all debts are paid on time and in full."
- President Joe Biden resumed face-to-face negotiations with Speaker of the U.S. House of Representatives, Kevin McCarthy, regarding an increase in the U.S. government's $31.4 trillion debt limit. Members of the House of Representatives left for recess on Thursday without a deal imminent, but could be recalled within 24 hours if an agreement takes shape. McCarthy indicated that the parties would need to reach a deal this week in order for Congress to have time to pass a bill before the so-called X date, the day when the U.S. Treasury is no longer able to meet all of its obligations.
- U.S. Treasury Secretary Janet Yellen warned that the U.S. could reach the X date as early as next Thursday if the debt ceiling is not raised. In a letter to lawmakers on Monday, Yellen wrote, "It is highly likely that Treasury will no longer be able to satisfy all of the government's obligations if Congress has not acted to raise or suspend the debt limit by early June, and potentially as early as June 1." In previous letters, she had characterized the potential for default as merely "likely."
- Minutes from the Federal Open Market Committee's (FOMC) May 2-3 meeting revealed that, "Participants generally expressed uncertainty about how much more policy tightening may be appropriate." While some investors believe that the Federal Reserve (Fed) is preparing to pause its rate-hiking cycle, the FOMC's meeting minutes stress that, "Many participants focused on the need to retain optionality," leaving the door open for further rate hikes. The next FOMC meeting is scheduled for June 13-14.
- According to the Department of Commerce, the personal-consumption-expenditures (PCE) price index rose 0.4% in April and 4.4% over the previous 12-month period, fueling speculation over the possibility of further Fed rate hikes to combat inflation. Food prices dipped less than 0.1% during the month and were up 6.9% year-over-year. Energy prices increased 0.7% in April but fell 6.3% over the previous 12 months. The PCE price index is the Fed's preferred gauge of inflation, as it tracks the change in prices paid by or on behalf of consumers for a more comprehensive set of goods and services than that of the consumer-price index (CPI).
- The S&P Global Flash US PMI Composite Output Index unexpectedly hit a 13-month high of 54.5 in May, beating last month's reading of 53.4 and consensus expectations of 50.0. Output growth was recorded at the fastest pace in over a year, led by service providers. A purchasing managers' index (PMI) is an indicator of the prevailing direction of economic trends in the manufacturing and service sectors. A reading above 50.0 indicates expansion of activity in the manufacturing and service sectors, while a reading below 50.0 indicates a contraction.
- The Census Bureau reported that new single-family home sales rose more than expected in April, to a seasonally adjusted annual rate of 683,000, its highest level in over a year. This represents an increase of 4.1% from the previous month and 11.8% year-over-year. At the end of April, the seasonally-adjusted estimate of new homes for sale was 433,000, which represents 7.6 months' worth of supply at the current rate of sales. New home sales are seen as an indicator of housing market trends, and by extension, the health of the broader economy.

Stocks

- Global equities closed down for the week. Emerging markets fared better than developed markets, though both were firmly in negative territory.
- U.S. equities were mixed. Information technology and telecommunications were the top performers, while materials and consumer staples lagged. Growth stocks led value, while large caps outperformed small caps.

Bonds

- The 10-year U.S. Treasury note yield rose to 3.80% during the week.
- Global bond markets slumped for the week.
- High-yield bonds led the markets, followed by corporate bonds and government bonds.

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The Numbers as of May 26, 2023	1 Week	YTD	1 Year	Friday's Close
Global Equity Indexes				
MSCI ACWI ($)	-1.6%	6.7%	1.0%	646.0
MSCI EAFE ($)	-2.9%	6.5%	2.9%	2069.4
MSCI Emerging Mkts ($)	-1.4%	0.8%	-5.8%	964.0
US & Canadian Equities				
Dow Jones Industrials ($)	-1.0%	-0.2%	1.4%	33093.3
S&P 500 ($)	0.3%	9.5%	3.6%	4205.5
NASDAQ ($)	2.5%	24.0%	10.5%	12975.7
S&P/ TSX Composite (C$)	-2.1%	2.8%	-3.0%	19920.3
UK & European Equities				
FTSE All-Share (£)	-1.8%	1.9%	-0.6%	4152.5
MSCI Europe ex UK (€)	-2.6%	9.1%	6.7%	1616.4
Asian Equities				
Topix (¥)	-0.7%	13.4%	14.3%	2145.8
Hong Kong Hang Seng ($)	-3.6%	-5.2%	-6.8%	18746.9
MSCI Asia Pac. Ex-Japan ($)	-1.9%	-0.4%	-5.2%	503.6
Latin American Equities				
MSCI EMF Latin America ($)	-1.2%	6.7%	-7.4%	2271.6
Mexican Bolsa (peso)	-0.6%	11.3%	3.5%	53952.4
Brazilian Bovespa (real)	0.0%	0.9%	-1.0%	110762.5
Commodities ($)				
West Texas Intermediate Spot	1.6%	-9.5%	-36.3%	72.7
Gold Spot Price	-1.7%	6.6%	5.2%	1944.1
Global Bond Indices ($)				
Bloomberg Global Aggregate ($)	-0.9%	0.7%	-5.6%	448.8
JPMorgan Emerging Mkt Bond	-0.3%	1.1%	-1.5%	776.8
10-Year Yield Change (basis points*)				
US Treasury	13	-8	105	3.80%
UK Gilt	34	67	236	4.33%
German Bund	11	-3	154	2.54%
Japan Govt Bond	2	0	18	0.42%
Canada Govt Bond	20	3	54	3.33%
Currency Returns**				
US$ per euro	-0.7%	0.2%	0.0%	1.073
Yen per US$	1.9%	7.2%	10.6%	140.58
US$ per £	-0.8%	2.2%	-2.0%	1.235
C$ per US$	0.8%	0.5%	6.6%	1.362

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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