Summary

Wall Street continues to show confidence in the U.S. economy with all major stock indices posting large gains for the week. The Dow Jones Industrial Average gained 0.7%, the S&P 500 finished 1.0% higher, and the NASDAQ soared 2.0%.

Last week was full of key reports about the performance of the U.S. economy in the second quarter of 2023. GDP grew at an annualized rate of 2.4%, beating expectations of a slowdown to 1.8% from 2.0% in the first quarter of 2023. Personal income increased 0.3% in June from the previous month. The lower-than-expected increase is partially due to the upwardly revised 0.5% increase (from 0.4%) in May. Personal spending instead remains strong. Nominal personal spending was up 0.5% from May, against expectations of a 0.3% increase. Even after adjusting for inflation, personal spending was up 0.4%. Inflation cooled off considerably from the high levels of just one year ago. The GDP deflator was up 2.2% year-over-year, much lower than an expected 3%. Similarly, the core Personal Consumption Expenditures Index increased only 0.17% from May, the second smallest monthly increase since December 2020. Orders for durable goods were up by a solid 4.7% from May, well above expectations. Housing prices are rebounding. The FHFA housing price index increased 0.7% in June from the previous month. The S&P Case Shiller 20-city Home Price Index is down 1.7% from a year ago, but it gained 1.5% since May. Higher prices and higher mortgage rates are affecting sales. New home sales were up only 697,000 at an annualized rate against an expected 715,000. Mortgage applications for the week ending on July 22 were also down 1.8%. The labor market continues to stay resilient. Initial jobless claims for the week ending July 22 decreased 7,000 to 221,000, the lowest level since February. Continuing jobless claims for the week ending July 15 also declined to their lowest level since February. Consumer sentiment about the economic outlook has improved with the slowdown in inflation and the ongoing stability in labor markets. Both the Conference Board and the University of Michigan consumer sentiment indices were up from June.

ECONOMIC RELEASES

Last Week: Indicator	Number Reported	Consensus Expectation*	Comment
FHFA Housing Price Index (Jun – Mo 9:45)	+0.7%	NA	
S&P Case-Shiller Home Price Index (Jul – Tu 9:00)	-1.7%	-1.0%	
Consumer Confidence (Jun – Tu 10:00)	117.0	112.0	
MBA Mortgage Applications Index (7/22 – We 7:00)	-1.8%	NA	
New Home Sales (Jun – We 10:00)	697 TUAR	715 TUAR	
Initial Claims (7/22 – Th 8:30)	221K	235K	
Continuing Claims (7/15 – Th 8:30)	1690K	NA	
GDP – Adv (Q2 – Th 8:30)	+2.4%	+1.8%	
GDP Deflator – Adv (Q2 – Th 8:30)	+2.2%	+3.0%	
Durable Orders (Jun – Th 8:30)	+4.7%	+1.0%	
Personal Income (Jun – Fr 8:30)	+0.3%	+0.5%	y-o-y = +5.3%
Personal Spending (Jun – Fr 8:30)	+0.5%	+0.3%	Real Personal Spending: +0.4%
PCE Prices (Jun – Fr 8:30)	+0.2%	+0.2%	Core PCE: +0.17%
Employment Cost Index (Q2 – Fr 8:30)	+1.0%	+1.1%	
Michigan Consumer Sentiment – Final (Jul – Fr 10:00)	71.6	72.8	June Reading: 64.4
Upcoming Week: Indicator	**Consensus Expectation***	**Prior**	**Comment**
ISM Manufacturing Index (Jul – Tu 10:00)	46.8%	46.0%	
Construction Spending (Jun – Tu 10:00)	+0.6%	+0.9%	
JOLTS - Job Openings (Jun – Tu 10:00)	NA	9.824M	
Productivity-Prel (Q2 – We 10:00)	+1.7%	-2.1%	
Initial Claims (7/29 – Th 8:30)	225K	221K	
Nonfarm Payrolls (Jul – Fr 8:30)	200K	209K	
Avg. Hourly Earnings (Jul – Fr 8:30)	+0.3%	+0.4%	
Unemployment Rate (Jul – Fr 8:30)	+3.6%	+3.6%	

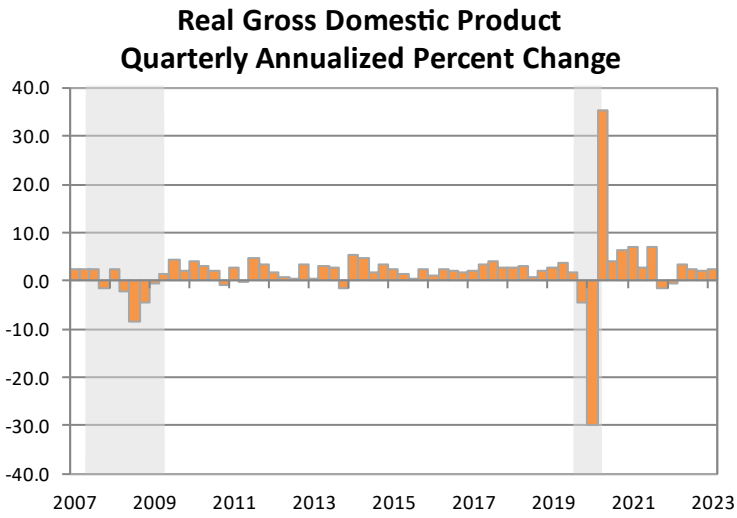
**Sources: www.briefing.com and www.federalreserve.gov*

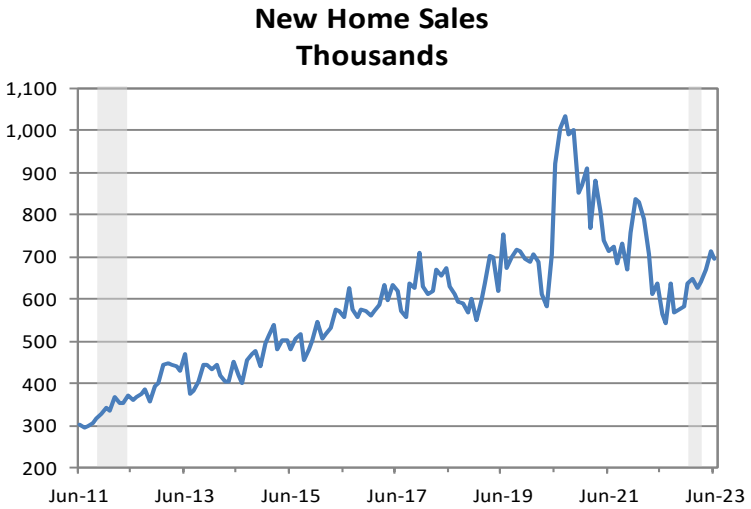
Economic Review

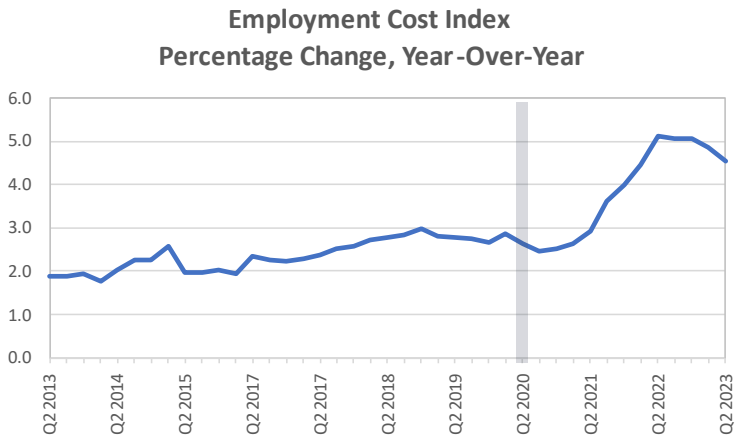
REAL GDP increased at an annualized rate of 2.4% in the second quarter of 2023, following a 2.0% increase in the first quarter. Personal consumption expenditures growth slowed to 1.6% from 4.2% in the first quarter. Being the largest component of the GDP, personal consumption expenditures contributed 1.12 percentage points to GDP growth. Gross private domestic investment increased 5.7% after declining 11.9% in the first quarter and contributed 0.97 percentage points to growth. Exports declined 10.8% after increasing 7.8% in the first quarter. Imports decreased 7.8% after increasing 2.0% in the first quarter. Net exports subtracted 0.12 percentage points from growth. Government spending increased 2.6% after advancing 5.0% in the first quarter and contributed 0.45 percentage points to growth.

NEW HOME SALES decreased 2.5% month-over-month in June to a seasonally adjusted annual rate of 697,000 units. However, this downturn is more likely due to month-to-month volatility than to a trend. On a year-over-year basis, new home sales were still up 23.8%. Sales increased the most in the Northeast (+141.2% from a year ago). Sales were also higher in the South (+21.4%) and in the West (+34.9%) but lower in the Midwest (-13.1%). The *median* sales price declined 4.0% from a year ago to $415,400 while the *average* sales price increased 4.8% to $494,700. This indicates that the distribution of new homes for sale is becoming more skewed, with a bulk of new homes on the market at the low end of the price spectrum, but extremely expensive new homes driving up the average price.

In the second quarter of 2023, the EMPLOYMENT COST INDEX showed a deceleration in employment costs, which should be comforting for the market and the Fed. The Employment Cost Index for civilian workers rose 4.5% yearly versus 5.3% in the second quarter of 2022. Wages and salaries, which account for about 70% of compensation costs, increased 4.6% while benefit costs climbed 4.2%. Compensation costs for private industry workers rose 4.5% yearly, while compensation costs for state and local government workers advanced 4.9%. Wages and salaries for government workers are catching up with the rest of the economy. In fact, a year ago, wages and salaries for government jobs were up only 3.2% compared to 5.7% for private industry workers.







Fed Speeches

On July 26, the FOMC raised the federal funds target rate In his press conference, Fed Chair Jerome Powell acknowledged the progress made in the fight to bring down inflation while emphasizing that the Fed's job is not done yet:

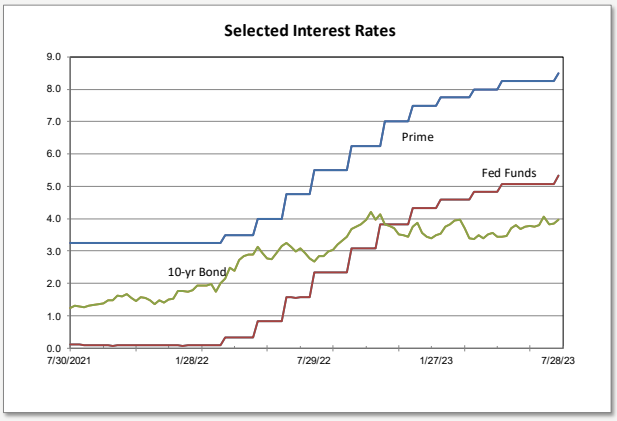
> *Over the 12 months ending in May, total PCE prices rose 3.8 percent; excluding the volatile food and energy categories, core PCE prices rose 4.6 percent. In June, the 12-month change in the Consumer Price Index, or CPI, came in at 3.0 percent, and the change in the core CPI was 4.8 percent. Inflation has moderated somewhat since the middle of last year. Nonetheless, the process of getting inflation back down to 2 percent has a long way to go.*

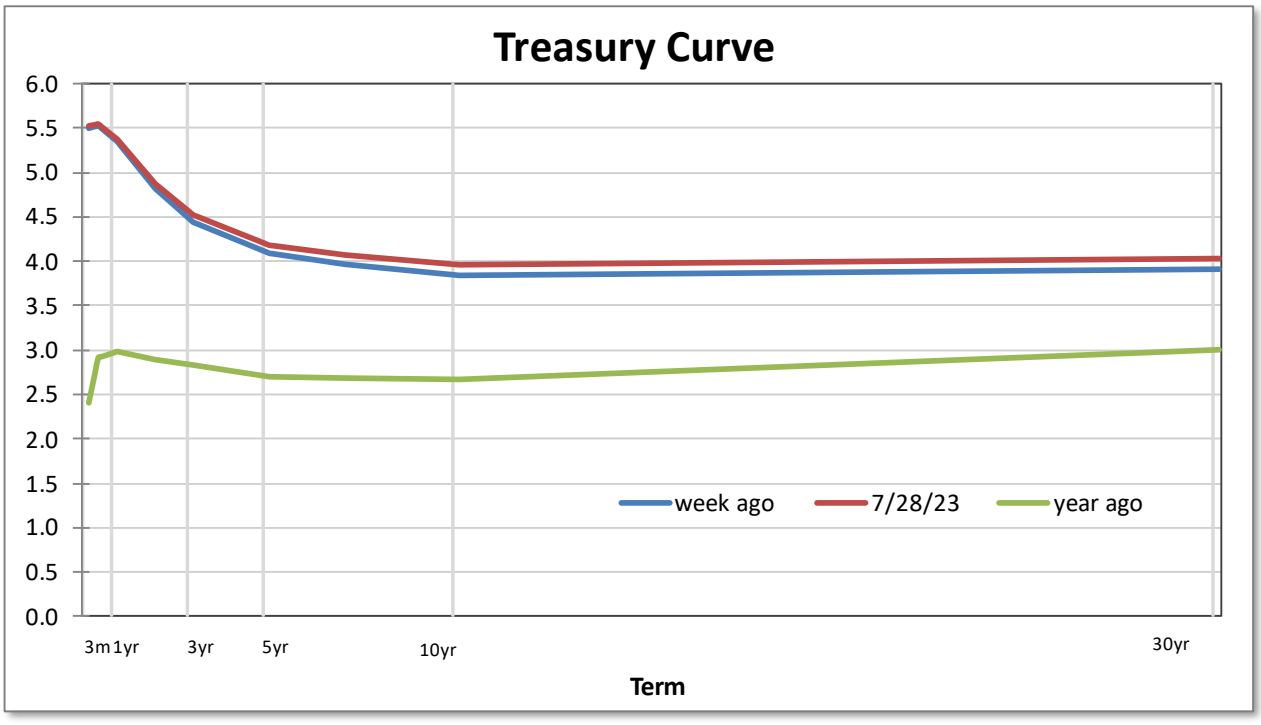
While the possibility to further target rates hikes before the end of the year is still on the table, it is not certain if the committee will vote for a rate increase in September:

> *In September, we're going to look at two additional job reports, two additional CPI reports, lots of activity data, and that's what we're going to look at and we're going to make that decision then. And that decision could mean another hike in September, or it could mean that we decide to maintain at that level.*

Financial Markets

U.S. stocks finished higher last week: the Dow Jones Industrial Average was up 0.7%, the S&P 500 gained 1.0% and the NASDAQ rose 2.0%. Following the increase in the federal funds target rate, yields on all Treasury securities inched up last week. Oil prices rose 4.8% and ended the week above $80 per barrel. Confidence in the U.S. economy boosted the dollar in the international market. The greenback traded 2.1% higher against the Japanese Yen and 1.0% higher against the euro.





Interest Rate Forecast*

The Federal Open Market Committee (FOMC) raised the federal funds rate target to 5.25% to 5.50% at the Fed's July policy meeting. In the statement released following the July meeting, the FOMC said, "Recent indicators suggest that economic activity has been expanding at a moderate pace. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation remains elevated. The U.S. banking system is sound and resilient. Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The extent of these effects remains uncertain. The Committee remains highly attentive to inflation risks."

Avg. for:	Prime	Fed Funds	SOFR	6-Mo. T-Bill	2-Yr. Note	10-Yr. Treasury	30-Yr Bond	30-Yr Mortgage
3rd Qtr '23	8.4	5.3	5.3	5.6	4.9	4.0	4.1	6.9
4th Qtr	8.7	5.6	5.6	5.8	5.1	4.5	4.4	7.0
1st Qtr '24	8.7	5.6	5.6	5.8	5.3	4.9	5.0	6.9
2nd Qtr	8.6	5.5	5.4	5.7	5.5	5.5	5.6	6.7
3rd Qtr	8.2	5.0	5.0	5.3	5.5	5.6	5.6	6.7

**Forecast as of July 26, 2023*

FINANCIAL MARKET SUMMARY

	As of 7/28/2023	As of 721/2023	Weekly Change	4-Week Change	13-Week Change
MONEY MARKETS (Changes in BPs)					
Prime	8.50	8.25	25	25	50
Secured Overnight Financing Rate (SOFR)	5.31	5.06	25	25	50
Fed Funds (Wed close)	5.33	5.08	25	26	50
TREASURIES (BE) (Changes in BPs)					
3 Months	5.52	5.50	2	9	42
6 Months	5.54	5.53	1	7	48
1 Year	5.37	5.35	2	(3)	57
2 Years	4.87	4.82	5	0	83
5 Years	4.18	4.09	9	5	67
10 Years	3.96	3.84	12	15	52
30 Years	4.03	3.91	12	18	36
MUNICIPALS- AAA G.O. & Mortgage (Changes in BPs)					
2-Year Muni	2.92	2.85	7	0	22
5-Year Muni	2.59	2.53	6	(2)	22
10-Year Muni	2.52	2.47	5	(9)	16
30-Year Muni	3.57	3.51	6	0	10
30-Year Conventional Mortgage	6.81	6.78	3	10	38
MARKET INDICATORS (Changes in %)					
DJIA	35,459.29	35,227.69	0.7	3.1	4.0
S&P 500	4,582.23	4,536.34	1.0	3.0	9.9
NASDAQ	14,316.66	14,032.81	2.0	3.8	17.1
CRB Futures	313.20	308.41	1.6	7.5	6.0
Oil (WTI Crude)	80.62	76.93	4.8	16.4	3.5
Gold	1,958.99	1,961.94	(0.2)	2.1	(1.5)
Yen / Dollar	141.76	138.80	2.1	(1.4)	5.7
Dollar / Euro	1.10	1.11	(1.0)	1.0	0.0

