OBSERVATIONS: *Tech earnings buoy markets, Q1 GDP lower than expected, and inflation in-line but still high*

- Markets recovered from more First Republic Bank headlines last week (*update: with the assistance of the FDIC, J.P. Morgan acquired First Republic over the weekend*) along with the general underperformance of regional banks (S&P Regional Bank Index -0.6%) as mega-cap tech company earnings supported markets. The S&P 500 closed the week +0.9%, while the tech heavy Nasdaq 100 closed the week up +1.9%.[1]
- Market breadth still not great: Of the S&P 500's +9.2% year-to-date returns (as of 4/28/23), nearly half has come from three stocks: Apple, Microsoft, and Nvidia.[1]
- Retail investors increased their share in T-Bill auctions, accounting for $48.4 billion or 3.7% of all US Treasury Bills issued in March through the Treasury Department's TreasuryDirect site—the highest monthly proportion since July 2008 during the Great Financial Crisis.[2]
- Durable goods orders rose +3.2% in March month-over-month (MoM) following sequential monthly declines in January and February. The gains were driven by new orders for transportation equipment (nondefense aircraft and parts jumped +78.4% MoM), which when excluded new orders increased just +0.3%.[3]
- US GDP growth for Q1 was below expectations of +1.9% after registering growth of +1.1%. Personal consumption was up 3.7% (expectations of 4.0%) buoyed by spending on goods which was up +6.5%, while services spending was up +2.3%. Final sales, which measures GDP but removes changes in inventories given their variability, was up +3.2%—a little better than the headline GDP figures may suggest.[4]
- Inflation: Core Personal Consumption Expenditures (PCE) was broadly in line with expectations in March—Core PCE rose +0.3% month-over-month, leaving the year-over-year figure at +4.6%.[1]

EXPECTATIONS

- The Federal Reserve's meeting comes this week (May 2nd & 3rd) with markets pricing in a 90% probability of a +25bps rate hike. Doing so would take the target Fed Funds rate to a new range of 5.00% – 5.25% which is broadly expected to be the peak (or terminal) rate for this cycle. This new policy phase is being termed as 'a conditional pause', where the Fed pauses policy and frames further changes on data dependency.[1]
- The European Central Bank is set to meet this week (May 4) and is widely expected to raise its policy rate by at least +25bps amid high inflation (+6.9% year-over-year) but stagnant growth—Eurozone GDP grew by +0.1% in Q1-2023 from Q4-2022.[1]
- Beijing held its first meeting on economic issues with its newly named Politburo last week and official statements from the meeting reinforced its efforts to facilitate consumer confidence, build stability in the property market, and support China's private sector.[1]
- Just over half of the S&P 500 has reported, and, so far, about 79% of firms are beating earnings estimates, which is above both the 5 and 10-year averages for EPS beats. Overall, EPS growth is now set to decline by -3.7% Year-over-Year in Q1.[5]

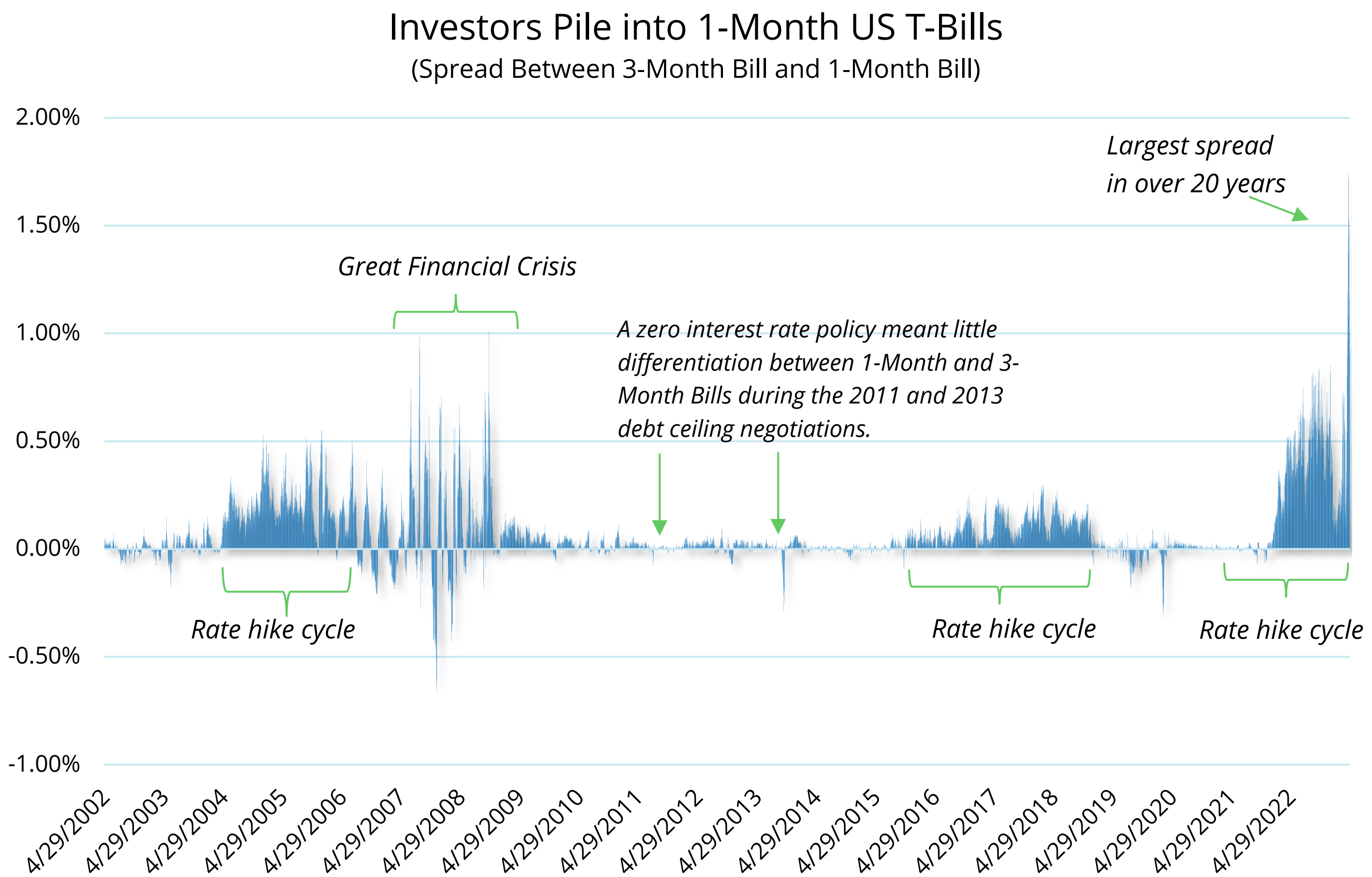
ONE MORE THOUGHT: *New "X date", Treasury Bill markets move, equity markets not paying attention…yet.*[1]

Equity markets have largely shrugged off, for now, any concerns over the looming debt ceiling as investors have been more focused on earnings season. That said, equity volatility expectations—as measured by the VIX Index futures—for June and July have shifted upwards in recent days. Most of the US Treasury market has also not seen

[1] *Bloomberg LP*
[2] *https://home.treasury.gov/data/investor-class-auction-allotments*
[3] *https://www.census.gov/manufacturing/m3/adv/current/index.html*
[4] *https://www.bea.gov/sites/default/files/2023-04/gdp1q23_adv.pdf, Quarter-over-Quarter, Seasonally Adjusted Annual Rate*
[5] *https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_042823.pdf*

significant changes and continues to be more driven by economic and inflation data as a read through into potential policy outcomes from the Federal Reserve. One area, however, that has seen significant movement is in the 1-month to 3-month US Treasury Bill market. As recently as 4/3/2023 the 1-Month bill was yielding 4.6%, while the 3-Month bill yielded 4.7%. By 4/20/2023, the 1-month bill was yielding 3.3% with the 3-month bill yielding 5.1%—a whopping 1.8% difference and a new all-time high spread (Chart of the Week). Fears of holding Treasury bills that matured during the "X date" (the date on which the Treasury would exhaust its extraordinary measures, effectively running out of money) seemed to drive investor preferences towards the 1-Month bill where the perceived risk of technical default would be off the table—ultimately driving 1-month bill yields lower and causing the extraordinary disconnect between the 1- and 3-month bill. *Of note, weaker tax receipts in the first four months of 2023 means the likely "X date" falls into the June and July timeframe rather than closer to Labor Day.* As of last Friday (4/28/2023) this spread had narrowed to 1.0%, with the 1-Month bill yielding 4.1% and the 3-Month bill yielding 5.0%—which is still an unusually large spread. Some of the narrowing may be attributed to the slim, one-vote margin (217 to 215), House passage of its version of a debt ceiling bill, though we know that bill to be dead on arrival in the Senate. The good news is the negotiation process is underway but is still likely to go down to the wire as the House and Senate are still far apart on government spending and the fringe politicians on both sides could cause havoc during the process. While the difference between the 1-Month and 3-Month bills should continue to narrow, we think it is worth being prepared for higher than usual volatility as the weeks move on. *Please see page 3 for a comparison between 2023 and 2011 debt ceiling dynamics.*

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, as of 4/28/2023, Generic 3-month US T-Bill yield minus generic 1-month US T-Bill

2011 vs 2023: Comparing Debt Ceiling Dynamics	2011	Date(s) of Comparison	2023	Date(s) of Comparison
President	Democrat	*2008 Presidential Election*	Democrat	*2020 Presidential Election*
House of Representatives - Control	Republican	*112th Congress (2011-2013)*	Republican	*118th Congress (2023-2025)*
Senate - Control	Democrat	*112th Congress (2011-2013)*	Democrat	*118th Congress (2023-2025)*
Geopolitics	Post GFC, European Debt Crisis	*2008-2011*	Post Covid, War in Ukraine	*2020-2023*
Business Cycle Stage	Early	*Q3 2011*	Late	*Q1 2023*
Leading Economic Indicators (LEI)	Positive	*July 2011*	Negative	*March 2023*
Unemployment Rate	9.0% and falling	*July 2011*	3.5% and steady	*March 2023*
ISM Services Index	53.5 (economic expansion)	*July 2011*	51.2 (economic expansion)	*March 2023*
ISM Manufacturing Index	52.9 (economic expansion)	*July 2011*	46.3 (economic contraction)	*March 2023*
Total US Debt (held by the public)	$14.343 Trillion	*July 2011*	$31.457 Trillion	*March 2023*
Debt to GDP	96% and rising	*October 2011*	120% and rising	*October 2022*
Statutory Debt limit	$14.6940 Trillion	*July 2011*	$31.3814 Trillion	*March 2023*
CPI Ex Food and Energy YoY	1.8% (low and steady)	*July 2011*	5.6% (high and steady)	*March 2023*
Fed Funds Rate (lower bound)	0% (easing cycle)	*July 2011*	4.75% (tightening cycle)	*March 2023*
Federal Reserve Balance Sheet	$2.9 Trillion (rising)	*July 2011*	$8.7 Trillion (slowing)	*March 2023*
3-Month US Treasury Bill	0.09%	*July 2011*	4.75%	*March 2023*
10-Year US Treasury Yield	2.80%	*July 2011*	3.47%	*March 2023*
Yield Curve	Positive	*July 2011*	Negative	*March 2023*
VIX index (stock market volatility)	23.5 (above average)	*July 2011*	17.0 (below average)	*March 2023*
MOVE Index (bond market volatility)	86.5 (near average)	*July 2011*	124.0 (above average)	*March 2023*
Performance of S&P 500 During Crisis	-18.4%	*July 7, 2011, to October 3 2011*	**TBD**	***TBD***
Performance of Bloomberg US Treasury Index During Crisis	+7.2%	*July 7, 2011, to October 3 2011*	**TBD**	***TBD***
S&P 500 One Year later	+2.3%	*July 7, 2011, to July 7 2012*	**TBD**	***TBD***
S&P 500 Three Years later (cumulative return)	+55.9%	*July 7, 2011, to July 7 2014*	**TBD**	***TBD***
S&P 500 Five Years later (cumulative return)	+72.6%	*July 7, 2011, to July 7 2016*	**TBD**	***TBD***
Resolution	Budget Control Act of 2011	*October 2011*	**TBD**	***TBD***

Source: Clearstead, Bloomberg LP, as of 4/27/2023. https://history.house.gov/Institution/Presidents-Coinciding/Party-Government/, GFC = Great Financial Crisis

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