

OBSERVATIONS: *Markets take a breather, Regional banks decline, UK inflation hotter than expected*

- Both the S&P 500 and Nasdaq were down -1.4% last week after taking a breather from their overbought conditions following consecutive weekly gains of five weeks and eight weeks for the two indexes, respectively. Regional banks (KBW Regional Bank index) lost -7.4% last week—worst week since 5/5/2023.¹
- Core inflation in the UK unexpectedly rose to +7.1% (Year-over-Year) to the highest level since March 1992 and above expectations of +6.8%. The Bank of England surprised markets by lifting interest rates by +50bps, instead of the expected +25bps, to 5.00% during last week's monetary policy meeting.¹
- The Conference Board's Leading Economic Indicators Index declined by 0.7 percent in May, marking the 14th consecutive month of declines and the index continues to signal a recession is likely in the next 12 months.¹
- Initial unemployment claims registered 264k last week and the prior week's figure was revised up to the same number. The 4-week moving average has reached 256k, the highest since mid-November 2021.¹
- Existing home sales edged up in May to 4.3 million units (seasonally adjusted annualized rate), +0.2% increase from April.¹
- European services and manufacturing activity came in softer than expected. Eurozone services PMI registered a 4-month low of 52.4 (expectations of 54.5), while the manufacturing PMI reached 43.6 (expectations of 44.8)—the lowest level in over three years.¹

EXPECTATIONS: *Powell's Congressional testimony, China attempts to stimulate economy*

- Fed Chairman Jerome Powell provided his semi-annual testimony to Congress last week, stressing that the Fed officials were in broad agreement that additional rate hikes were likely, but that the pace of those hikes was no longer a tantamount concern—hence the Fed was comfortable taking pauses between hikes and allowing for additional data points to allow the Fed to fine-tune the fed-funds level.¹
- Meanwhile, China lowered its 1-year and 5-year benchmark interest rates last week by 10 basis points—in keeping with its cuts of its over-night and 1-month interest rates by the same amount earlier this month—in a bid to bolster demand and improve consumer and business sentiment. China's economy has noticeably slowed in recent months, and many expect additional stimulus is likely in H2-2023 particularly targeted towards first-time homebuyers and targeted sectors—green energy and more efficient home appliances.¹
- Coincidentally, Goldman Sachs revised down its 2023 growth estimate for China to 5.4% (from an initial forecast of 6.0%) due to a persistent drag from its property sector and decelerating exports due to slowing global growth.²

ONE MORE THOUGHT: *US housing dodging a bullet; Leading housing market indicators slowly looking up³*

Recent leading housing data may be hinting at signs of a rebound, despite the rise in mortgage rates and home affordability challenges amid rising home prices. Last week's data showed housing starts—the number of new privately owned houses for which construction has started— rose +21.7% in May from April to a seasonally adjusted annual rate (SAAR) of 1.631 million homes and are +5.7% higher than one year ago. Meanwhile, building permits also rose in May from April by +5.2% to a SAAR of 1.491 million which is the highest level since October 2022 (which also marked the lows in the S&P 500). Building permits, however, remain -12.7% below this time last year. *Building permits and housing starts are generally seen as a leading indicator of future economic activity given that they lead most other economic production—building permits are included as part of the Conference Board's Leading Economic Index.* The

¹ Bloomberg LP

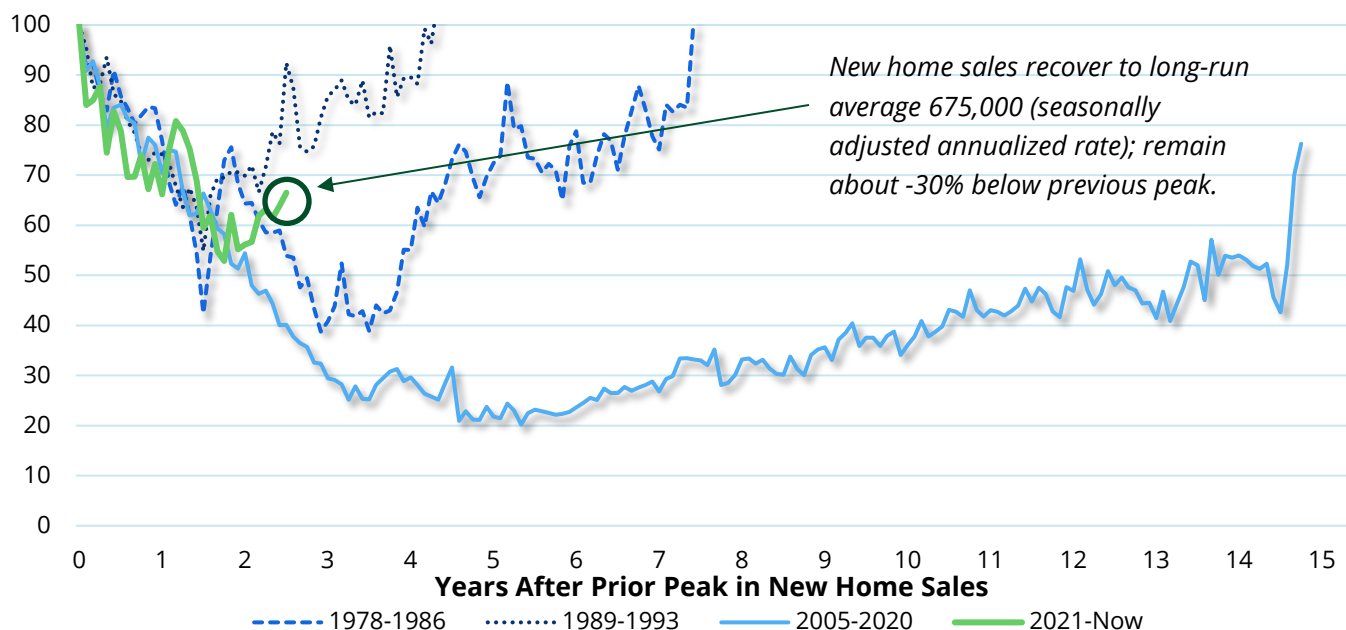
² Goldman Sachs "GS Economic Indicators Update: Weaker China Growth in 2023" 6/21/2023

³ <https://www.census.gov/construction/nrc/pdf/newresconst.pdf>, Bloomberg LP, <https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index>

stronger starts and permit numbers were buoyed in large part by the starts and permits for multi-family housing units and the number of multi-family houses (apartments) currently under construction is at a record high. Relatedly, US homebuilder sentiment rose in June, exceeding estimates, to an 11-month high. The NAHB/Wells Fargo Housing Market Index (HMI) reached a reading of 55 driven by improving conditions for current single-family homes sales and expected six-month forward single-family home sales—the HMI remains below the post-Covid peak of 90 (November 2020) and the post-Covid average of 66. Recent new home sales data, a lagging indicator, has recovered to its long-term average of 675k SAAR and seems to be tracking previous housing boom bust cycles, with the exception of the housing bubble popping during the Great Financial Crisis (Chart of the Week). Structural imbalances between household formation and housing construction—the former growing faster than the latter—remains a key driver for the housing market long-term and despite the record pace of rate hikes the housing sector has been resilient and may be more supportive of the overall economy than expected.

CHART OF THE WEEK

US Housing Busts - New Home Sales (100=Prior Sales Peak)



Source: Clearstead, Bloomberg LP, US Census data as of 6/23/2023

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