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MARKET MINUTE

JULY REVIEW 2023

This month's Market Minute reflects the views of our Investment Office and was composed by
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OVERVIEW

The economic news, in general, was a robust tailwind that supported investor enthusiasm in July. Overall housing activity looks to have bottomed out in the first half of the year and the fundamentals—starts, permits, and sales—are set to gradually improve. Meanwhile the US labor market remains strong, and the US economy is by a variety of measures at—or at least very near to—full employment. Not surprisingly, the Conference Board's Consumer Confidence Index improved in July from June and now stands at the highest level since mid-2021.[1] When the U.S. consumer is employed and feeling good, they spend, which resulted in Q2 Real GDP growth of 2.4% which was higher than Q1's 2.0%.[1] Where is that recession that was all but guaranteed to have occurred by now?

As many Americans sweltered in the month of July, they did not let the weather dampen their enthusiasm for investing in stocks and the riskier sectors of the bond market.

U.S. EQUITY MARKETS As of July 31, 2023

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	3.4%	3.4%	8.5%	10.6%
S&P 500	3.2%	3.2%	20.6%	13.0%
Russell 2000	6.1%	6.1%	14.7%	7.9%
Russell 1000 Growth	3.4%	3.4%	33.4%	17.3%
Russell 1000 Value	3.5%	3.5%	8.8%	8.2%

As US economic data continued to consistently surprise to the upside in July, US equities moved steadily higher and the narrowness of market leadership that was the hallmark of Q2-2023 began to widen out. In July, US small caps (Russell 2000 Index +6.1%) led US large cap stocks (Russell 1000 Index +3.4%) while there was little difference between growth and value stocks (Russell 1000 Growth Index +3.4% and Russell Value Index +3.5%). The historically relevant Dow Jones Index recorded 13 consecutive days of positive returns, which matched the record set in 1987.[1] As stocks rose reliably during the month, volatility in equity markets declined as investors took to heart that a soft landing for the US economy was more likely in 2024 than a significant recession and that the Fed may be close to finishing its 18-month long campaign of rate hikes.

INTERNATIONAL EQUITY As of July 31, 2023

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	4.1%	4.1%	13.9%	13.4%
MSCI EAFE	3.2%	3.2%	15.3%	16.8%
MSCI Emerging Markets	6.2%	6.2%	11.4%	8.3%
MSCI EAFE Small Cap	4.4%	4.4%	10.2%	7.9%

International equities trade higher in line with US equities (MSCI EAFE Index +3.2%) for July. Emerging market equities led the way with the MSCI EM Index gaining +6.2%, which was in part buoyed by Chinese equities which gained over 10% during the month (MSCI China Index +10.8%). Similar to what occurred in the US, international small cap stocks outperformed their large cap peers (MSCI ACWI ex US Small Cap Index +5.1% vs MSCI ACWI ex US Index +4.1%), but unlike the US, international value stocks outpaced their growth stock peers (MSCI ACWI ex US Value Index +5.0% vs MSCI ACWI ex US Growth Index +3.1%).

FIXED INCOME As of July 31, 2023

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-0.1%	-0.1%	2.0%	-3.4%
BarCap Global Aggregate	0.7%	0.7%	2.1%	-2.7%
BarCap US High Yield	1.4%	1.4%	6.8%	4.4%
JPM Emerging Market Bond	1.6%	1.6%	5.5%	5.2%
BarCap Muni	0.4%	0.4%	3.1%	0.9%

Investment grade investors treaded water for the month as U.S. Treasury yields were unchanged in the middle of the yield curve and higher in the 10-year (3.96% vs 3.84%) and 30-year (4.02% vs 3.86%) areas. But much like the equity markets, adding risk in the high yield and emerging market investments continues to reward investors. High yield and emerging market debt spreads ended the month at their tightest levels seen in 2023.[1] Investors' willingness to add risk is clearly evident as the "soft landing" mentality gains wider acceptance.

CONCLUSION & OUTLOOK

Currently, in a battle between the positive factors and the negative ones (the Federal Reserve's ongoing fixation with inflation), the market has focused on the positive factors as being more dominant—at least as evidenced by the past several weeks of gains in the S&P 500. However, much depends on the continued strength of the US labor market, and should we see a rapid increase in unemployment in the back-half of 2023, then it is likely there will be an equally sharp pull-back in US consumer spending. So far, the tailwinds buttressing the US economy have led to the idea that the US will have a soft-landing—slow, but positive growth—or even a no-landing—gradual improving growth rates—in 2024, but we are mindful of the risks to this narrative and will be vigilantly watching for the signals that could portend a less rosy scenario for the US economy and, ultimately, for our clients.

SOURCES

1 Bloomberg LP