

July 2023

Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for the Period Ended 7/31/2023

Global Overview

July proved to be a positive month for equity asset classes, both domestically and internationally. In the U.S., returns continued to gain momentum from the previous month, with the GDP growth rate surpassing expectations and growing at a 2.4% annual rate. Additionally, both the U.S. and ECB raised rates another 25 basis points. While many in the U.S. market anticipate this to mark the end of the cycle, the Euro Area reflects more uncertainty about concluding its hikes. Despite this, most broad-based equity indexes gained in July, with smaller cap indexes leading the pack. This strong performance contributed to the MSCI World returning 3.4% in the month and 19.0% year-to-date.

U.S. Markets & Economy

Domestic optimism remained strong throughout the month of July, and was driven by rising consumer confidence as well as continued momentum from June. The Fed hiked rates another 25 basis points, bringing the federal funds rate up to 5.25% to 5.50%, a 22-year high. While Fed Chair Powell has not ruled out future rate hikes, economists and the market predict that this might be the end of the current hiking cycle. Encouragingly, Powell shared that the Fed staff is no longer forecasting a recession, and the market is embracing the idea of a soft landing. This positive news caused consumer sentiment to skyrocket for the second month in a row, reaching its highest level since 2021 at 71.6, up from 64.4 in June. Additionally, positive indicators include a decline in the headline inflation rate, down to 3.0% from 4.1% from the previous month. But, the core inflation rate remains slightly elevated at 4.8%, due to strong demand in consumer spending, which increased over the second quarter. Unemployment continues its steady, low trend, falling to 3.5%. Both continuing jobless claims and initial jobless claims support strength in the labor market, with continuing jobless claims recently falling from 1.75 million to 1.69 million, and initial jobless claims also declining to 221,000. The economic strength was further highlighted by Q2 GDP results surpassing the 2% forecast, with the GDP Growth Rate rising at a 2.4% annual rate. These positive economic indicators maintained the bullish sentiment and drove the S&P 500 Index to gain 3.2% in July. The strength of much of the market's return in 2023 thus far has been attributed to a handful of mega-cap tech stocks, but in July the financial sector drove returns. Specifically the banking industry began to rebound following high volatility from the banking crisis earlier in the year as banks are now benefitting from the higher interest rates and providing strong early earnings updates. The banking industry's strength helped the value-oriented indexes to gain, with the Russell 2000 Value Index to increasing 7.6% in July. Small cap indexes saw a significant return, as investors capitalized on the attractive valuation of smaller companies, driving up demand and market price, contributing to the Russell 2000 Index growing 6.1%.

Fixed income was one of the few asset classes that posted mixed results in July. Although the market's outlook does warrant optimism on the fixed income front, with no more expected rate hikes and potential cuts coming in the beginning of 2024, U.S. bonds declined marginally, with the Bloomberg U.S. Govt/Credit Index losing 0.1%. Notably, the 10-year Treasury Yield curve rose for the second consecutive month, rising from 3.8 to 4.0. Furthermore, U.S. investment-grade corporate bond spreads continued to tighten even further this month, falling from 1.3% to 1.2%.

International Markets & Economy

Similar to the U.S., the Euro Area's market produced strong returns in July. Rates also mirrored the U.S., with the ECB hiking another 25 basis points. Initially, the market expected additional hikes due to elevated inflation; however, interest rates are now impacting other areas of economic growth. For instance, both Manufacturing and Service PMI have been declining for several months, with Manufacturing PMI reaching a three-year low of 42.7, and Service PMI

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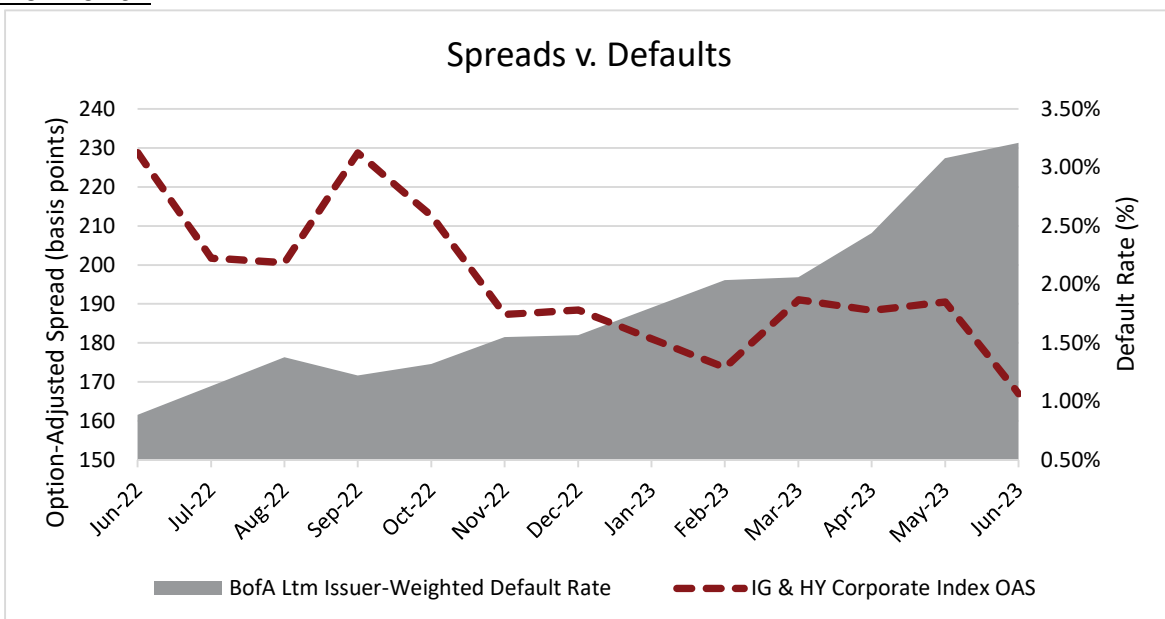
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barely remaining in expansionary territory at 51.1. Furthermore, the Q2 GDP Growth Rate narrowly remained positive at 0.3% (annualized). Japan joined the global theme of quantitative tightening by shifting their 10-year Japanese government bond yield cap from 0.5% to 1.0%, resulting in local yields hitting a nine-year high. Emerging markets also experienced gains in July driven by the strength of Artificial Intelligence stocks in Taiwan and South Korea helping the MSCI Emerging Market index to gain 6.2%. China experienced large market gains, with the MSCI China Index gaining 10.8% in the month, but Q2 data revealed challenges in the Chinese economy. Despite the reopening in China, which was expected to lead to substantial gains, GDP only grew at a 0.8% rate. Additionally, inflation continues to fall with China's Producer Price Index turning deflationary and causing market demands for more aggressive stimulus measures from the Chinese government. China's inflation rate dropped to 0% from the positive 0.2% previously reported in May. Also of note, weak manufacturing PMI of 49.2 revealed China's key manufacturing sector to be in a contraction.

In the News

Over the past year, corporate spreads compared to default rates have been telling different stories. Historically, both corporate spreads and default rates moved in tandem with one another; however, over the last year, they have been moving inversely, as seen below in the Chart of the Month. This unusual trend, compared to historical patterns, suggests that either default rates will decline, or corporate spreads will widen. It is no secret that corporate spreads have remained relatively tight and have consistently narrowed since March of this year due to improving fundamentals. These narrowing spreads align with other indicators such as rising consumer confidence resulting from improved attitudes towards the Fed's policy and the bullish market sentiment. Intuitively, in the presence of a higher interest rate environment and a slowing economy, consumer and commercial loan default rates should be on the rise. Supporting the expectation of increasing default rates and slowing economy include elevated interest rates and an inverted yield curve. On the other hand, GDP growth remains strong and above expectations, consumer spending is strong, unemployment numbers are low and stable, and inflation has been falling at a faster rate compared to other developed countries. Furthermore, elevated rates have had less impact on manufacturing and production thus far, contrary to the Euro Area. As a result, it is unclear whether default rates or spreads will be the ones to break their pattern, as recessionary indicators are also providing mixed results as well, but the current divergence suggests the potential for a shift in market dynamics.

Chart of the Month



Source: Bloomberg, BofA Global Research, Segall Bryant & Hamill

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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	3.36	8.52	18.95	13.48	11.67	9.12	9.30
	Bloomberg US Agg Bond TR USD	(0.07)	(1.51)	2.02	(3.37)	(4.46)	0.75	1.50
	Russell 3000 TR USD	3.58	11.09	20.33	12.65	13.13	11.45	12.14
	DJ Industrial Average TR USD	3.44	4.85	8.55	10.62	12.65	9.30	11.19
	NASDAQ Composite PR USD	4.05	17.33	37.07	15.78	10.11	13.34	14.74
	MSCI EAFE NR USD	3.24	3.37	15.28	16.79	9.25	4.55	5.20
	FTSE Treasury Bill 3 Mon USD	0.46	1.31	2.85	4.11	1.48	1.62	1.02
	Bloomberg Commodity TR USD	6.26	4.32	(2.02)	(7.88)	18.02	6.47	(0.52)
Domestic Equities	S&P 500 TR USD	3.21	10.51	20.65	13.02	13.72	12.20	12.66
	S&P MidCap 400 TR	4.13	10.04	13.33	10.47	15.26	8.28	9.99
	S&P SmallCap 600 TR USD	5.51	12.19	11.87	5.26	15.71	5.70	9.67
	Russell 1000 TR USD	3.44	10.94	20.69	12.95	13.22	11.92	12.44
	Russell 1000 Growth TR USD	3.37	15.47	33.36	17.31	12.19	15.23	15.53
	Russell 1000 Value TR USD	3.52	6.14	8.82	8.28	14.14	8.01	9.02
	Russell Mid Cap TR USD	3.97	9.49	13.33	8.75	11.82	8.77	10.13
	Russell Mid Cap Growth TR USD	3.03	11.06	19.45	13.03	5.95	9.90	11.19
	Russell Mid Cap Value TR USD	4.35	8.37	9.81	6.18	14.90	7.18	8.93
	Russell 2000 TR USD	6.12	13.68	14.70	7.91	12.01	5.09	8.17
	Russell 2000 Growth TR USD	4.68	13.37	18.86	11.58	6.52	4.82	8.54
	Russell 2000 Value TR USD	7.55	13.81	10.24	3.94	17.46	4.69	7.40
International Equities	MSCI ACWI Ex USA NR USD	4.07	4.78	13.92	13.42	7.09	3.85	4.72
	MSCI EAFE NR USD	3.24	3.37	15.28	16.79	9.25	4.55	5.20
	MSCI EAFE Growth NR USD	1.96	2.31	16.42	13.56	5.41	5.41	6.14
	MSCI EAFE Value NR USD	4.55	4.48	14.25	20.23	12.93	3.27	4.02
	MSCI Japan NR USD	3.02	9.23	16.41	15.14	7.32	3.66	5.48
	MSCI AC Asia Ex Japan NR USD	6.13	7.01	9.34	6.19	0.41	1.97	4.92
	MSCI Europe NR USD	3.07	1.67	17.07	19.62	10.40	5.13	5.27
	MSCI United Kingdom NR USD	3.44	0.37	12.16	12.87	13.32	3.35	3.57
	MSCI EAFE Small Cap NR USD	4.43	2.96	10.20	7.93	6.06	2.05	6.03
MSCI EM NR USD	6.23	8.41	11.42	8.35	1.46	1.71	3.47	
Fixed Income	Bloomberg US Govt/Credit TR USD	(0.08)	(1.63)	2.13	(2.88)	(4.77)	1.00	1.63
	Bloomberg US Govt/Credit Interm TR USD	0.26	(1.16)	1.77	(1.44)	(2.61)	1.28	1.41
	Bloomberg US Govt/Credit Long TR USD	(1.08)	(3.05)	3.26	(7.11)	(10.48)	0.39	2.76
	ICE BofA US High Yield TR USD	1.42	2.10	6.92	4.15	2.10	3.25	4.29
	Credit Suisse HY USD	1.34	2.27	7.25	4.60	2.55	3.24	4.22
	Morningstar LSTA US LL Index TR USD	1.29	3.39	7.85	9.79	6.08	4.25	4.10
	FTSE WGBI NonUS USD	0.83	(1.60)	2.37	(3.86)	(9.08)	(3.51)	(1.51)
	Bloomberg Gbl Agg Ex USD TR USD	1.28	(1.19)	2.12	(2.45)	(6.83)	(2.33)	(0.98)
REITs	FTSE Nareit All REITs TR	2.11	3.42	5.30	(10.12)	5.60	4.59	6.79
	Wilshire US REIT TR USD	3.06	5.58	10.00	(5.51)	8.09	4.90	6.62

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

Source: Morningstar

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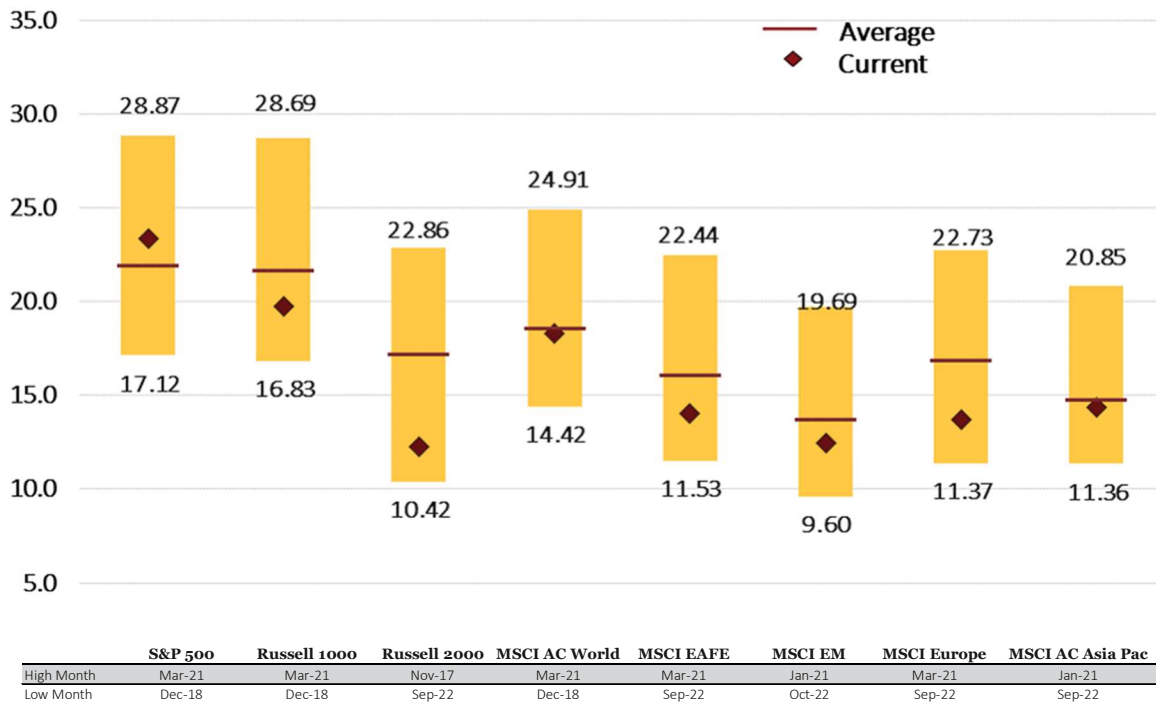
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Current Trailing P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Month	Mar-21	Mar-21	Nov-17	Mar-21	Mar-21	Jan-21	Mar-21	Jan-21
Low Month	Dec-18	Dec-18	Sep-22	Dec-18	Sep-22	Oct-22	Sep-22	Sep-22

Source: Morningstar

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates ³ per US \$		Inflation ²
	Latest ¹	2023 ¹	2024 ¹	(Most recently available)	Sovereign Bonds, 10 Year	Current	1 Year Ago	(Most recently available)
United States	2.40	1.60	1.00	3.60	3.95	-	-	4.80
China	0.80	5.40	5.10	5.20	2.72	7.15	6.75	0.40
Japan	0.70	1.30	1.10	2.50	0.60	140.72	134.45	3.30
United Kingdom	0.10	0.30	1.00	4.00	4.31	1.29	1.21	6.90
Euro Area	0.30	0.90	1.50	6.40	3.16	1.10	1.02	5.50
Germany	0.00	0.00	1.30	5.60	2.47	1.06	1.02	5.50
France	0.50	0.80	1.30	7.10	3.03	0.92	1.02	5.70
Italy	-0.30	1.20	1.00	7.40	4.10	1.06	1.02	5.18
Canada	0.80	1.40	1.40	5.40	3.50	1.32	1.28	3.20
India	1.90	6.00	7.00	8.00	7.17	82.30	77.29	6.70
Mexico	0.90	2.60	2.10	2.70	8.82	16.66	20.38	6.89
Brazil	1.90	1.70	1.20	8.00	10.86	4.73	5.22	6.62

Sources: (Most recently available data) St. Louis Federal Reserve, The Wall Street Journal, OECD, Trading Economics

1. Latest GDP is seasonally adjusted annualized rate. 2022 & 2023 is forecasted data from OECD

2. In terms of Core CPI

3. Euro Area and U.K. exchange rates quoted in market standard format (USD/Non-USD currency)

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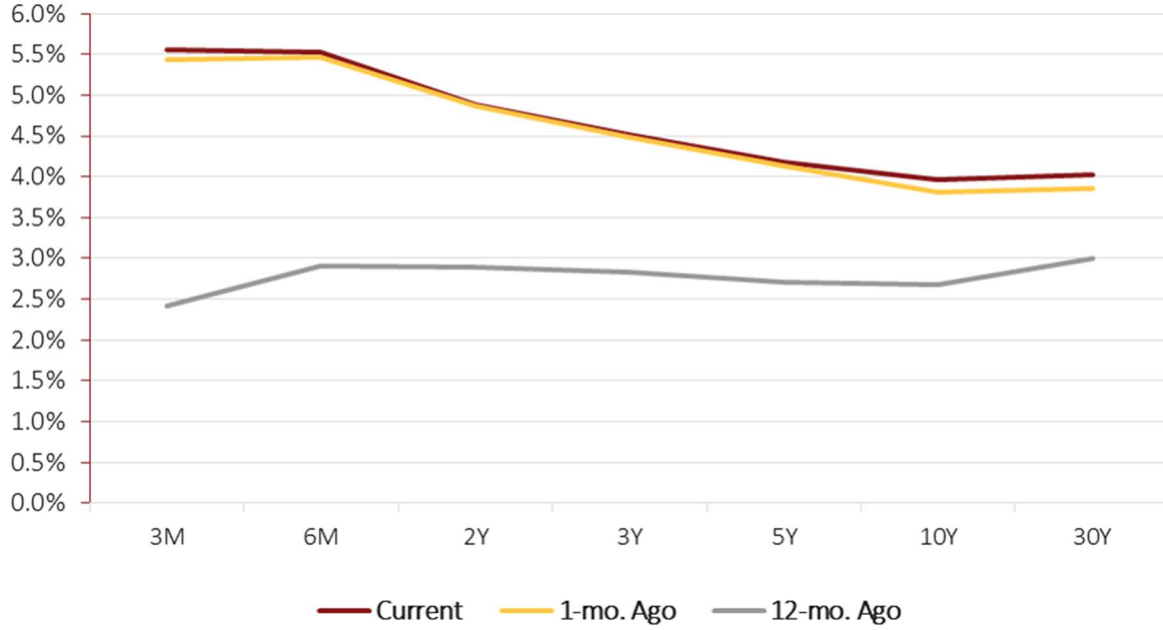
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U.S. Treasury Yield Curves

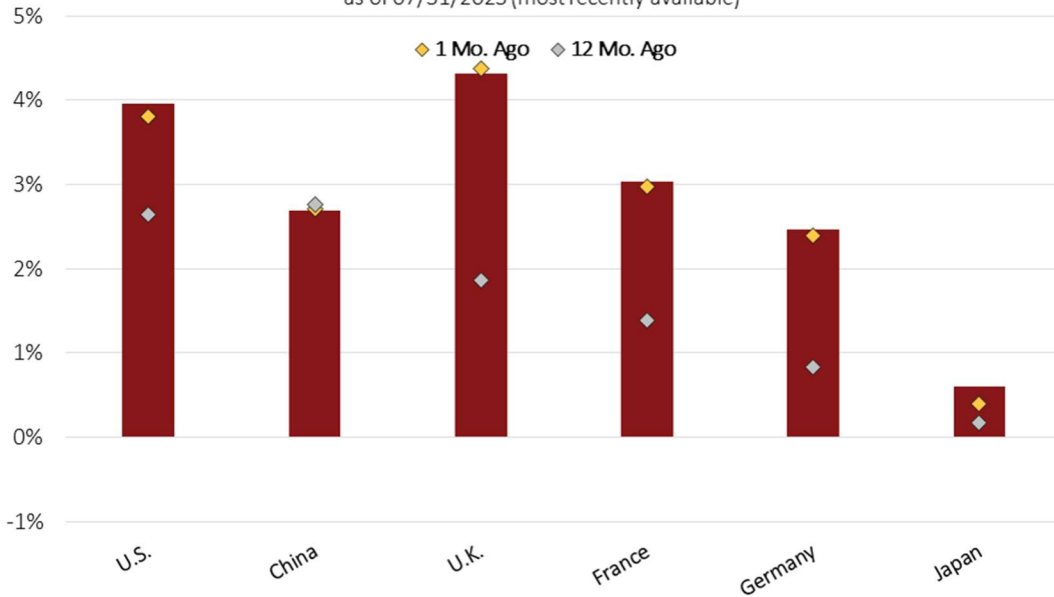
as of 07/31/2023



Source: Federal Reserve Bank

10-Year Sovereign Yields

as of 07/31/2023 (most recently available)



Source: Trading Economics

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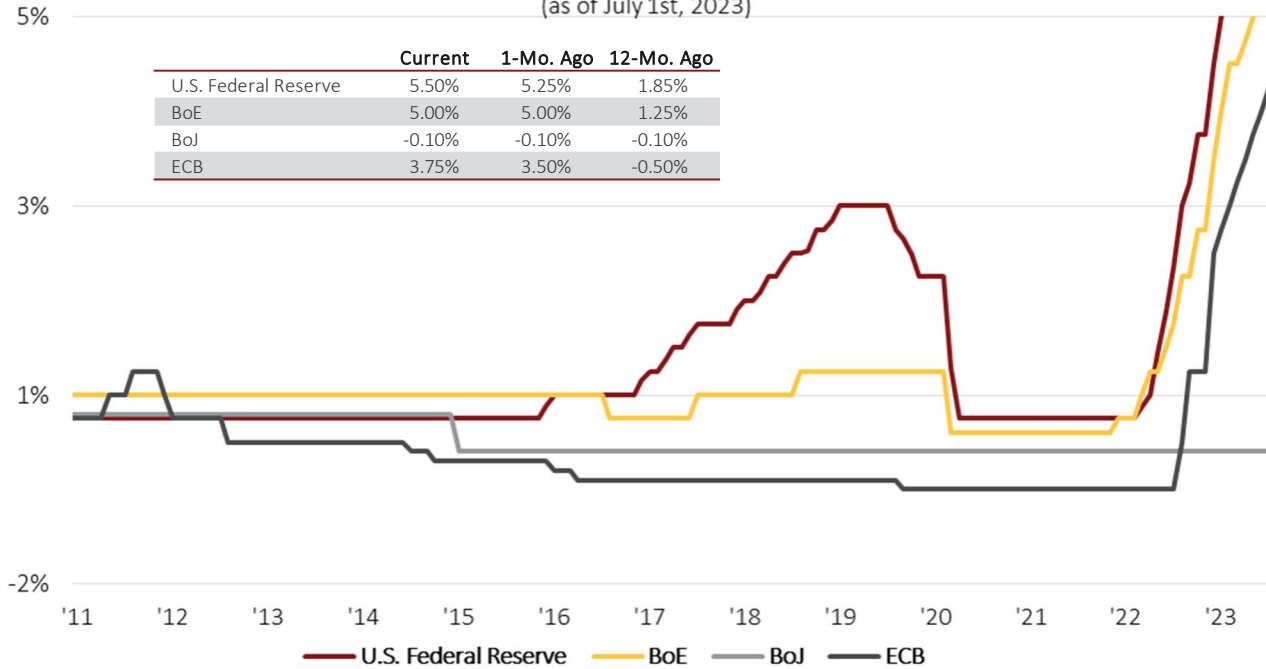
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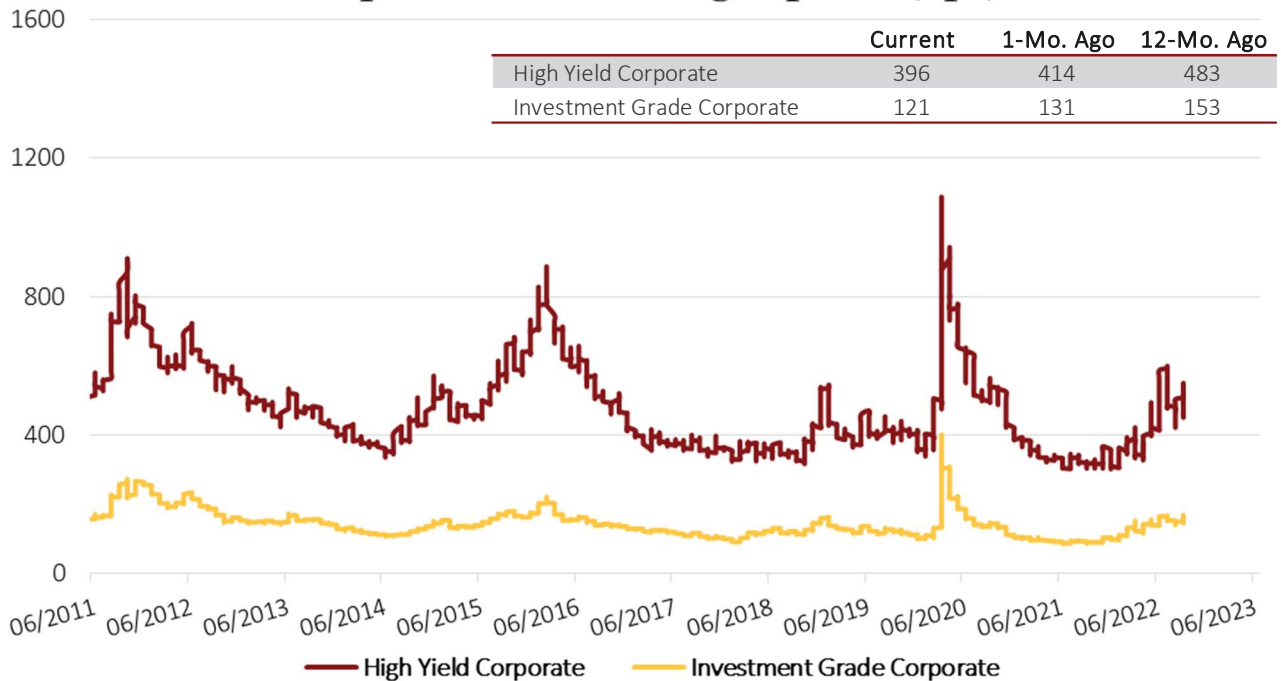
Central Bank Policy Rates

(as of July 1st, 2023)



Source: Federal Reserve Bank, Bank of England, European Central Bank, Trading Economics

Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank