Summary

In a light week for economic data, jobless claims ticked higher, while consumer sentiment dropped sharply.

Equities saw gains in the U.S. and Europe, with marginal economic data keeping hopes alive for lower rates. Bonds were little changed in the U.S. on net, while foreign bonds were held back by a strong dollar. Commodity gains were led by precious metals and agriculture, while crude oil was little changed.

Economic Notes

(-) The preliminary May **Univ. of Michigan survey of consumer sentiment** fell by a dramatic -9.8 points to 67.4, well below the expected slight decline to 76.2. Consumer assessments of current conditions as well as future expectations both fell to similar negative degrees. Inflation expectations for the coming year rose 0.3% to 3.5%, versus expectations for no change; those for the coming 5-10 years ticked up a tenth to 3.1%. After improving sharply in Dec. and Jan., sentiment has fallen back again to a six-month trough. It appeared that stickier inflation and especially higher gasoline prices as of late have kept consumer moods sour. This was reaffirmed by the survey sponsor's commentary noting 'worries' over inflation, unemployment, and interest rates in the year ahead, across all demographic groups and particularly in western states. There could well be some political undertones here as well, due to surveys being taken in the midst of primary election season and general election rhetoric and polarization ramping up. Of course, one might argue the public is far sourer on the economy and labor markets than they should be at this point, even if conditions are slowing from more robust levels.

(-) **Initial jobless claims** for the May 4 ending week rose by 22k to 231k, well above the 212k median forecast. Continuing claims for the Apr. 27 week rose by 17k to 1.785 mil., matching consensus expectations. It appeared that over half of the rise in initial claims was in NY, leading to questions about seasonal adjustments and some possible academic year effects.

(0/-) The Federal Reserve's **Senior Loan Officer Opinion Survey** for Q1 showed tendencies similar to that of those of the prior quarter, with overall credit standards generally tighter and loan demand weaker. Generally, bank lending standards are related to bank risk-taking propensity, while business/consumer demand has been largely a function of interest rates, as the 'price' of borrowing ultimately. Banks noted a worsening outlook broadly for the economy as the primary reason for tightening standards, with 85% of banks indicating 'less favorable' or 'uncertain,' which was a bit higher than in Q4. General risk-reduction was noted by two-thirds of banks, which was unchanged from Q4. On the positive side, liquidity or capital requirements were noted by a smaller percentage of banks as a reason than in Q4.

By segment, in commercial & industrial loans, standards tightened in a similar fashion to Q4, while demand weakened at a similar rate; overall, there was little change in either direction. As would be expected, smaller firms continue to pay a higher spread, but the pace of spread widening for both large and small companies flattened. Commercial real estate loan standards tightened but to a lesser degree than Q4, while demand for loans in multi-family, construction, and development all strengthened. Residential real estate loan standards tightened, but less so than in Q4, while demand weakened. Credit card loan standards tightened to a lesser degree, but demand weakened. Auto loan standards tightened, while demand weakened by a bit more than in the prior quarter. It wasn't indicated by this report, but there have been some signs of pressure for lower-income credit card debtors and some segments of the sub-prime auto loan space.

Market Notes

Period ending 5/10/2024	1 Week %	YTD %
DJIA	2.20	5.48
S&P 500	1.89	10.03
NASDAQ	1.17	9.12
Russell 2000	1.21	2.07
MSCI-EAFE	1.77	6.29
MSCI-EM	0.98	5.46
Bloomberg U.S. Aggregate	0.09	-1.97

U.S. Treasury Yields	3 Mo.	2 Yr.	5 Yr.	10 Yr.	30 Yr.
12/31/2023	5.40	4.23	3.84	3.88	4.03
5/3/2024	5.45	4.81	4.48	4.50	4.66
5/10/2024	5.47	4.87	4.52	4.50	4.64

U.S. stocks saw a positive week, the third in a row, with price levels inching back toward all-time highs. This was in keeping with low volume, with little new economic data during the week. By sector, utility stocks led the way again, up over 4% on the week, followed by solid gains of over-2% in financials, materials, industrials, and consumer staples. Consumer discretionary lagged with minimal gains for the week, largely due to a sizable drop in Tesla shares. The somewhat surprising strength of lower-beta utility stocks has been seemingly led by strong earnings showings in Q1, hopes for lower rates later this year, and perhaps most importantly from sentiment, with an expected ramp-up in electricity needs from artificial intelligence in coming years.

Foreign stocks were mixed, with Europe earning the world's strongest results for the week, followed by the U.K., while Japanese stocks lost ground for the week. European shares were boosted by stronger earnings results, along with continued high expectations for central bank rate cuts being not too far away. The Bank of England kept their policy interest rate steady, but with two votes for cuts this month, which provided some hints as to the closer timeline of upcoming cuts. The Swedish central bank did cut rates by a quarter-percent to 3.75%, easing for the first time since the hiking cycle started, but noted uncertainty as to the future path of inflation. With economic growth and labor markets more fragile in Europe, the decision to begin cutting has appeared an easier one than in the U.S.—a high likelihood remains for the ECB to begin in June. Japanese stocks were plagued by further yen depreciation, despite some recent central bank moves to shore up the currency. Emerging market stocks were flat as a whole during an oddly bifurcated week, with gains in China, Taiwan, and Mexico offset by declines in Brazil and India. Chinese stocks were helped by stronger holiday spending, as well as better trade data. The Brazilian central bank cut interest rates by a quarter-percent, to 10.50%, along with some hawkish rhetoric that wasn't as well-taken by markets.

Bonds were minimally-changed during the week, along with little change in the Treasury yield curve. Senior floating rate bank loans outperformed with small gains, while high yield underperformed with a small loss. Foreign bonds were down generally, as the U.S. dollar strengthened a fraction of a percent last week.

Commodities were led by a sharp rise in gold, followed by higher agricultural prices. Crude oil gained for most of the week, before slipping back to just above where it started at $78/barrel. Gold prices have baffled some strategists, noting that stable to higher real yields have tended to pressure prices; however, the story continues of central bank buying demand, both as a hedge against potentially weaker economic growth but also some concern over potential impact of sanctions, which affect traditional safe havens, such as U.S. dollar reserves.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Seeking Alpha, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.