Summary

In a busy week for economic data, most of which was keyed in on inflation, consumer and producer prices continued strong in April, but showed signs of stabilization. Retail sales and industrial production were little changed, while housing data was mixed.

Equities rose globally with eased U.S. inflation and government stimulus in China. Bonds fared well as yields declined, especially in foreign markets due to a weaker dollar. Commodities were generally higher, led by metals and crude oil.

Economic Notes

(-) The Conference Board's **Index of Leading Economic Indicators** for April declined -0.6%, below the prior month's decline of -0.3%, which had also been the median consensus expectation. Over the last six months, the LEI has declined -1.9%, which is an improvement on the -3.5% decline of the prior six months from May-Oct. 2023. The April drop was led by weaker readings for consumer sentiment, ISM new orders, and building permits. The semi-annual data was pulled down by the same factors, but also the interest rate spread (inverted yield curve) but was offset a bit on the positive side by stronger S&P 500 stock performance (seen by economists as an important leading indicator of conditions). Per the Conference Board, the recent readings confirm that "softer conditions lay ahead," although they no longer point to recession necessarily, though with GDP growth possibly falling to under 1% by mid-year. This cumulative indicator again appears to reflect generally aligned thinking by other data and economist thinking that slowing appears to be occurring (at least relative to last year's robust pace), but the damage is contained so far.

(0/-) **Retail sales** for April were flat on a nominal basis, in contrast to expectations calling for a 0.4% increase. Removing autos boosted the number to a 0.2% gain, while core/control without the more volatile components (auto, gasoline, building materials, and food services) declined by -0.3%, including sharp revisions downward for the past several months. The unchanged headline figure was driven by a 3% rise in gasoline, in addition to lesser gains in building materials, food/beverage, and clothing; these offset declines elsewhere, including in sporting goods, health/personal care, miscellaneous, and general merchandise. Year-over-year, retail sales growth decelerated to 2.7% on a nominal basis, which, after accounting for inflation, shows flat or negative growth on a 'real' basis.

(0/-) **Industrial production** came in flat for April, underwhelming compared to the small 0.1% rise expected. Manufacturing production (three-quarters of the total) fell by -0.3%, led by a drop in business equipment and autos, some of which was related to normalizing activity following disruptions/rebounds from earlier labor strikes. On the other hand, utilities production rose by 3%, which tends to be weather-based, while high-tech equipment rose 1% along with continued growth in technology capacity. Mining activity fell by over a half-percent. **Capacity utilization** fell a tenth to 78.4%, in keeping with expectations. This data continues to show a mixed picture, of strength in some areas and less robustness in others.

(-) The **Empire manufacturing index** fell by -1.3 points to a further contractionary -15.6 level, in contrast to the expected improvement to -10.0. Under the hood, new orders and employment declined further into contraction, while shipments increased, but stayed slightly in contraction. Prices paid fell back a bit, but remained solidly expansionary, at a level of 28. Expected business conditions for six months out fell by several points but remained near 15—solidly in expansion. This regional indicator has been more volatile than normal during the last few years, likely driven by seasonality issues, but continues to point to a contraction in manufacturing activity.

(0) The **consumer price index** for April came in 0.3% higher on both a headline and core level, ex-food and energy. Headline CPI was about a tenth below expectations, while core fell in line. Underlying components remained mixed for the month, with gasoline prices up 2.7%, hospital and personal care services rose sharply (along with labor costs), as did apparel. Somewhat neutral were primary rent decelerating to 0.3% on the shelter side, in addition to slowing in the pace of rising costs for health insurance and auto insurance (although the latter remains inflationary), while food prices were flat for the month. On the deflationary side, prices for both new and used cars declined sharply, as did airfares and lodging. Several of these categories appear to be heavily affected by January new year price hikes, which are now fading now that we're moving further way from year-end and prior-year base effects.

Over the past 12 months, headline and core CPI slowed to 3.4% and 3.6%, respectively. These remain high but are showing progress toward further deceleration, albeit this normalization being a painfully slow process. This has been discussed in the financial market press ad nauseum, but the bulk of price inflation over the last 12 months remains tied to shelter (+5.5%, and being 36% of total CPI), along with transportation (+11.2%, bulk of which being auto insurance and repair costs), and hospital services (+7.7%). The better April report slightly improves the chances of the Fed starting rate cuts in the coming months, even if not in June, with longer-term yields also moving lower upon the release.

(-/0) The **producer price index** in April rose by 0.5% on both a headline and core, ex-food and energy basis, each several tenths above expectations. However, these also included some revisions downward by several tenths for the prior month, which softened the rise a bit. Other than that, the monthly figures were driven by a 2% rise in energy prices, while food prices fell by -0.7%. Year-over-year, PPI was up 2.2% and 2.4% on a headline and core basis, respectively. This included strong services price gains of nearly 3%, while goods prices have moved from a deflationary pace back up to just above 1%. It remains to be determined how closely the Fed treats this report, with substantial revisions, in its total inflation assessment looking ahead.

(+/0) **Housing starts** for April rose 5.7% to a seasonally-adjusted annualized rate of 1.360 mil. units, a bit below the 7.6% rise expected, although it included a sizable downward revision for the prior month. The more volatile multi-family starts segment rose over 30% for the month, while single-family starts ticked down a few tenths of a percent. Regionally, starts in the Midwest and South were up 10-20% in the month, while those in the Northeast fell by -23%. **Building permits** fell -3.0%, to a pace of 1.440 mil. units, in contrast to the 0.9% rise expected, and continued a string of monthly declines. Multi-family declined to a sharper degree than single-family, which was little changed. Over the past year, starts remain split between 15% gain for single-family, while multi-family are down -33%, as apartment building has faded after a surge.

(-) The **NAHB housing market index** fell -6 points to a contractionary 45 for May, in contrast to expectations for no change at a near-neutral 51. Current sales and sales expectations both fell several points, but remained positive, while prospective buyer traffic fell a bit further to a level of 30, considered 'poor' from the standpoint of homebuilder mood. According to the NAHB, "The market has slowed down since mortgage rates increased and this has pushed many potential buyers back to the sidelines." While not widely-known, costs are also higher and homes harder to insure due to new energy codes from 2021, not to mention the strong headwind of high mortgage rates, which have not substantially eased. Also interestingly, a quarter of builders cut prices again in May, continuing a trend over the past several months.

(0) **Initial jobless claims** for the May 11 ending week fell by -10k to 222k, just above the 220k median forecast. Continuing claims for the May 4 week rose by 13k to 1.794 mil., above the 1.780 mil. level expected. Claims were dispersed by state across the country, with the exception of NY, which saw a reversal downward from a spike the earlier week, which appeared to be seasonal. Otherwise, claims continue to run at a low level. However, there have been selected layoff announcements on the periphery, including a large one from Walmart last week.

Market Notes

Period ending 5/17/2024	1 Week %	YTD %
DJIA	1.35	6.90
S&P 500	1.60	11.80
NASDAQ	2.15	11.47
Russell 2000	1.79	3.90
MSCI-EAFE	1.66	8.06
MSCI-EM	2.71	8.32
Bloomberg U.S. Aggregate	0.57	-1.40

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
5/10/2024	5.47	4.87	4.52	4.50	4.64
5/17/2024	5.46	4.83	4.44	4.42	4.56

U.S. stocks experienced positivity all week, with the S&P 500 and Nasdaq back to new record highs, based on slow downward progress in inflation reports taken well by financial markets, in addition to mixed economic data that could be seen as pushing the Fed in a more dovish direction. Nearly every sector experienced a gain last week, led by technology up 3% (Apple and Nvidia, but also others), followed by health care and communications; on the other end, industrials lost a fraction of a percent last week. Real estate also fared positively, as interest rates fell back. The Dow Jones Industrial Average achieved the milestone of 40,000, which is not meaningful in and of itself due to the unusual and antiquated structure of the index, but the media often reports on these round numbers when reached. In a bull market, that may provide an extra sentiment boost, fueled by some 'fear of missing out,' for investors who haven't been paying as much attention.

Foreign stocks performed in line with U.S. equities in developed markets, with Europe, the U.K., and Japan all performing similarly. On the negative side, the ECB pulled back on near-term rate cut expectations, while cuts in the U.K. look potentially more likely (with a weaker labor market). Central bank policy decisions continue to look closely tied to the U.S. Federal Reserve, without officials saying as much. Emerging markets fared even better, led by a 5% gain in Chinese stocks. Last week's results were tied to a sizable rescue package intended to stabilize the property sector, by lowering down payments, loosening restrictions on mortgage rates, and providing additional funding to banks. In fact, since the end of January, China has outperformed nearly all other countries, up 30% over that span—with enticingly low valuations, better government support (and removal of some restrictions), and improvement in economic conditions from worse levels providing a catalyst.

Bonds experienced gains last week, along with falling yields, related to cooling inflation numbers. Investment-grade bonds and high yield performed similarly, with floating rate bank loans underperforming slightly. Foreign bonds saw better returns, helped by a weaker dollar.

Commodities were led by gains in industrial and precious metals, as well as energy, while agricultural prices fell back. Crude oil prices rose 2% last week to land near $80/barrel, along with slightly falling inventories.

Have a good week.

Ryan M. Long, CFA
Director of Investments
FocusPoint Solutions, Inc.

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, Investing.com, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, National Association of Home Builders, Northern Trust, PIMCO, 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.