

Summary

Economic data for the week included stronger PMI activity surveys for manufacturing and services, and durable goods orders, while housing sales data came in weaker.

Global stocks were mixed last week, with the U.S. faring a bit better overall, while foreign stocks lagged, especially in emerging markets. Bonds fell mildly along with higher interest rates during the week, as the chances of the Fed and other central banks easing policy sooner faded. Commodities were mixed, with agriculture higher, and energy and metals lower.

Economic Notes

(0/+) The **S&P Global US manufacturing PMI** ticked up by 0.9 of a point to 50.9 in May, back into expansion, and surpassing expectations of a slight decline to 49.9. Under the hood, output and employment moved further into expansion, while forward-looking new orders ticked slightly higher, but remained in contraction. **S&P Global US services PMI** rose 3.5 points to 54.8, back more solidly into expansion, and beating expectations of a slight drop to 51.2. Underlying data included new business rising back into expansion, as did employment, although that remained just under neutral. In both manufacturing and services, input and output prices continued at a robust expansionary pace, in the mid-50s, pointing to continued price pressures. All-in-all, these measures point to continued economic improvement.

(+) **Durable goods orders** rose 0.7% in April, nearly matching the increase of the prior month (after revisions) and surpassing the expected -0.8% decline. Removing transportation, order growth was trimmed to 0.4%, while core capital goods orders rose 0.3%. Transportation obviously led the increase for the month. Year-over-year, total orders are down -0.9%, and up 1.7% excluding transportation; considering inflation, these were far less impressive. Core durable goods shipments rose 1.2% (0.4% for core, beating expectations of little change), and up 2.3% on a trailing 12-month basis. This data did include some seasonal factor revisions, which didn't appear overly meaningful. While the total results were mixed, strength was seen in areas like computers/related parts, electrical goods, and fabricated metal, which has offset declines in defense aircraft, where activity tends to be lumpy.

(-) **Existing home sales** fell -1.9% in April to a seasonally-adjusted annualized rate of 4.140 mil. units, below the median forecast calling for a 0.8% increase. As condos/co-ops were unchanged, this was exclusively due to a drop in single-family units. Every region experienced a decline, led by the Northeast, down -4%. Year-over-year, national sales were down -2%. The existing home median sales price showed a 6% rise over the last 12 months to \$407,600, representing nearly a year of year-over-year price gains. Inventory rose to 3.5 months' supply, three tenths from the prior month and up 0.5 from a year ago. Perpetually seeing the bright side, the National Association of Realtors noted that the stronger inventory was a positive for potential buyers. However, mortgage rates staying above 7% aren't making conditions any easier.

(-) **New home sales** fell -4.7% in April to a seasonally-adjusted annualized rate of 634k, along with a sizable revision downward for March, and below the consensus expectation of a -2.2% decline. The Northwest was the only region that saw gains, while the South experienced the strongest decline. Nationally, year-over-year new home sales fell -8%, with the months' supply of homes rising to 9.1. The seasonally-adjusted sales number bounced around during the last year within a range of 600-700k—well below the replacement rate (estimated to be 1.0-1.5 mil/year) to meet demographic demand, new household formation, teardowns, etc.)—while supply has doubled over the past two years. The median new home sales price rose 4% over the last 12 months to \$433,500. Despite ongoing news discussing housing affordability issues, the new home sales price has similarly bounced around within a range of \$420-440k over the past two years, after having risen sharply over the prior two years from lows hit during the 2020 pandemic. However, the average house size has fallen since then, maintaining affordability somewhat, but implying that the price per square foot has continued to rise.

(0) **Initial jobless claims** for the May 18 ending week fell by -8k to 215k, below the 220k median forecast. Continuing claims for the May 11 week rose by 8k to 1.794 mil., just a tick above the 1.793 mil. level expected. Claims were spread across the board by state, pointing to no anomalies or broad patterns. The overall levels remain low and point to labor market stability.

(0) The **FOMC minutes** from the May meeting were highlighted by the committee's noting the 'lack of further progress' toward the 2% inflation target, but also an increasing divergence of member views. It appeared most of this divergence was related to the underlying causes of inflation, specifically the more volatile components, as well as January seasonal distortions. This alluded to some disagreement about the persistence of current inflation, with a bias toward 'higher for longer,' but 'various' participants noting that further tightening could be necessary. The committee as a whole continued to expect inflation to return to 2% 'over the medium term,' although it 'would likely take longer than previously thought.' Discussion also focused on the possibility that the economy could be less sensitive to interest rates than in the past, as well as possible reactions they might take to a deterioration in labor markets, noting that immigration has supported labor supply and added to aggregate economic demand. In terms of the balance sheet, 'almost all' participants supported the call to slow the pace of runoff, while 'a few' appeared to be ok with letting the current pace of unwind continue. The U.S. Fed is managed in an attempt to achieve general consensus, although dissents from policy choices occasionally occur. However, these are far less common than they are in the U.K., for example, where BOE meetings tend to be less consensus-oriented, and dissenting final votes are frequent. This additional Fed detail, along with decent data releases, could keep the timing of the first rate cut pushed out to the fall, with financial markets reacting a bit negatively to the hawkishness.

Market Notes

Period ending 5/24/2024	1 Week %	YTD %
DJIA	-2.30	4.44
S&P 500	0.05	11.85
NASDAQ	1.42	13.05
Russell 2000	-1.21	2.64
MSCI-EAFE	-0.86	7.12
MSCI-EM	-1.48	6.71
Bloomberg U.S. Aggregate	-0.28	-1.68

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
5/17/2024	5.46	4.83	4.44	4.42	4.56
5/24/2024	5.46	4.93	4.53	4.46	4.57

U.S. stocks were mixed last week, with technology closing with gains over 3% (leading the Nasdaq to more all-time highs), while all other sectors fell back, led by the largest losses from energy and financials. The earnings report for the Magnificent 7 member Nvidia was closely-awaited on Wed., which resulted in another strong report, in addition to a dividend raise and 10-for-1 stock split, and 15% return on the week. Real estate also fell back by nearly -4% along with higher interest rates, which punished the 'value' segment in general. Small cap stocks also underperformed large caps.

Fed Governor Waller noted in a speech that he'd need to see 'several more months' of good inflation data before feeling comfortable easing policy through a rate cut. He's only one member of the FOMC, but this appears to reflect the opinions of economists as well, with 1-2 cuts this year still the general base case, although the 0-1 probabilities have been increasing.

In exciting news from a security settlement standpoint (not something we often say), the SEC's mandated update to T+1 (transaction date plus one business day) is going into effect after the long weekend on Tue., May 28. Such changes only occur infrequently, due to the operational and technological hurdles involved, but follows a move to T+2 in 2017, and to T+3 in the 1990s, after a long stretch of T+5, which had been driven by the manual settlement of trades in that earlier era. There are calls for T+0 'real time' settlement at some point, or at least nightly settlement, but no target on that has been set. Some issues remain with that faster settlement, such as a lessened ability to correct errors and for other operational adjustments where at least some extra time is helpful.

Foreign stocks experienced a negative week, as a whole, underperforming domestic stocks. Europe and Japan saw milder losses, while the U.K. and emerging markets fared worse. As has been the case in the U.S., questions over the potential pace of central bank interest rate policy changes have driven sentiment. Specifically, U.K. inflation came in a bit hot, at 4.85% year-over-year, which pushed back some assumptions calling for near-term rate cuts. However, ECB officials held firm with expectations of a June cut. In EM, while Indian stocks gains, China, Brazil, and Mexico fell by upwards of -5% for the week. These returns accompanied fears of higher rates for longer in the U.S., which puts upward pressure on the U.S. dollar, and can be problematic for these EM countries.

Bonds mildly fell back across the board along with higher yields across the U.S. Treasury curve, with the exception of floating rate bank loans, which saw small gains. Foreign bonds saw deeper declines, along with a stronger dollar.

Commodities were mixed for the week, with strong gains in agriculture (as wheat prices rallied by 5%, along with forecasts of lower production), while energy and metals fell back. Crude oil prices fell by -2% last week to around \$78/barrel, in a secondary effect of continued-high U.S. interest rates leading to slowing economic growth, and ultimately lower demand, in the absence of other information to focus on.

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, 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.