Summary

Economic data for the shortened week included some gains in retail sales and better results for industrial production, while existing home sales and housing starts fell back.

Equities saw further gains globally, led by international more than U.S., where value outpaced growth. Bonds were mixed to lower as yields ticked higher. Commodities were also mixed, with declines in grains offset by a rise in crude oil.

Economic Notes

(+) The S&P Global U.S. **manufacturing PMI** index ticked up by 0.4 of a point to 51.7 for June—further into expansion, despite calls for a slight decline. New orders rose nearly a point to over 51, as did employment to over 53. On the other hand, overall output and both input and output prices fell back but remained expansionary. The S&P Global U.S. **services PMI** index also rose in June, by 0.3 of a point, further into expansion at 55.1, also despite calls for a decline of about a point. The underlying components were strong as well, with gains in new business activity and employment moving higher, while input/output prices declined but remained in expansionary territory. These indicators both point to expansion, with the combined index reaching its highest level in two years—keeping a soft landing intact, and recessionary forces at bay.

(-) **Retail sales** rose by 0.1% in May, below the 0.3% median forecast, while several prior months saw downward revisions. Removing autos from the number turned it to a negative -0.1%, as auto sales rose nearly 1%, offset by a -2% decline in gas station sales. Core/control sales saw a rise of 0.4%, with other significant sectors being gains in sporting goods and non-store/internet, while furniture, food/beverage, and food services sales declined. Over the past year, retail sales remain up over 2% on a nominal basis, but down -1% on a ‘real’ inflation-adjusted measure, with several years of inflation-adjusted change after the pandemic peak. This metric shows signs of stress on the lower-end consumer, which was taken positively by markets to some degree as that raises the odds of an eventual rate cut.

(+) **Industrial production** for May rose 0.9%, exceeding the 0.3% expected. This was led by manufacturing production, up the same 0.9%, with gains from auto, while utilities production rose nearly 2%, and mining rose 0.3%. Over the past 12 months, overall production was up only 0.4%, led by high-tech equipment up 8% over that time. This index has been relatively flat over the past year and a half, pointing to subdued manufacturing activity overall. **Capacity utilization** ticked up by a half-percent to 78.7%.

(-/0) The **New York Fed Empire manufacturing index** rose 9.6 points to -6.0, stronger than the -10.0 median expectation. This was an improvement, but the overall index remained in contraction. Under the hood, new orders rose by 15 points to a barely-contractionary -1.0, while shipments moved back into expansion. Employment saw a decline of several points, further into contraction. Prices paid also fell back, but still solidly in expansion, while prices received fell dramatically to a less dramatic expansion. Expected business conditions for the next six months expanded sharply, and nearly doubled from 16 to 30. This series has remained particularly volatile over the past several years on a month-to-month basis, likely due to seasonality adjustments, so is less reliable as an indicator than usual.

(-) **Existing home sales** declined by -0.7% in May to a seasonally-adjusted annualized rate of 4.11 mil. units, slightly better than the -1.0% decline expected by consensus. Sales were down -3% over the last 12 months. Single-family units falling nearly -1% accounted for the entire change, as condos/co-ops were unchanged, and entirely in the South region, as all other areas saw flat results. The median sales price for existing homes is up 6% from a year ago to a record high of $419,300, continuing nearly a year straight of annual price gains. The inventory of unsold homes grew 7% from the prior month to an equivalent of 3.7 months’ supply. With homeowners that have mortgages ‘locked in’ at low rates at least half of where today’s rates are, the subdued sales activity continues.

(-) **Housing starts** fell -5.5% in May to a seasonally-adjusted annualized rate of 1.277 mil. units, well below the 0.7% increase expected by consensus, in addition to downward revisions for several prior months. In fact, this was the lowest starts level in four years. The majority of the decline came from a -5% drop in single-family, while the volatile multi-family group also fell, by -7%. Regionally, the West saw a 10% rise, while the Midwest fell by the greatest degree, down -19%. **Building permits** fell -3.8% to a seasonally-adjusted annualized rate of 1.386 mil. units.

(0) **Initial jobless claims** for the Jun. 15 ending week fell by 5k to 238k, just above the 235k median forecast. Continuing claims for the Jun. 8 week rose by 15k to 1.828 mil., above the 1.810 mil. expected. It appeared seasonal and other factors continue to play a role, particularly in MN, due to a policy change last year that could have added up to 10k to the claims figure after adjustments. Otherwise, no major changes.

(-) The Conference Board's **Index of Leading Economic Indicators** for May declined by -0.5%, a tenth worse than the pace of April's decline. The monthly result was led by weakness in manufacturing new orders, consumer sentiment regarding business conditions, and fewer building permits. Over the last six months, the LEI fell by -2.0%, which was still an improvement on the prior six-month period decline of -3.4% (ending in Nov. 2023), with generally the same factors as in May pulling down the index. The year-over-year change in the LEI has reaccelerated higher, although remaining negative. Per the Conference Board, current LEI levels continue to fall above recession territory, although they point to sub-1% GDP growth over the next two quarters.

Market Notes

Period ending 6/21/2024	**1 Week %**	**YTD %**
DJIA	1.50	4.87
S&P 500	0.63	15.36
NASDAQ	0.01	18.26
Russell 2000	0.80	0.40
MSCI-EAFE	0.07	4.97
MSCI-EM	0.98	7.42
Bloomberg U.S. Aggregate	-0.15	-0.07

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
6/14/2024	5.51	4.67	4.22	4.20	4.34
6/21/2024	5.49	4.70	4.26	4.25	4.39

U.S. stocks saw moderate gains in the four-day trading week, with mixed economic data to react to. By sector, consumer discretionary, energy, financials, and industrials all saw gains of at least a percent, which led to sharper 'value' outperformance over 'growth' for a change. Utility and technology (mostly due to Nvidia and Apple) stocks lagged the pack with negative returns, with the aside that Nvidia overtook Apple and Microsoft as the largest stock in the world, as measured by market cap. Real estate also fell back by nearly a percent with yields moving higher.

Foreign stocks experienced gains, with mixed results compared to the U.S., with strength in Europe and the U.K. outweighing a decline in Japan. The Bank of England left their key policy rate unchanged, as expected, although a couple of members voted for a quarter-point cut, pointing to potential broadening dovishness. However, the Swiss National Bank cut rates by 0.25% for the second meeting in a row, taking the policy level down to 1.25%; lower inflation was one catalyst, as was likely a desire to reduce the strength of their currency. Japan also appeared to be weighed down by uncertainty over upcoming monetary policy choices. Emerging markets also fared well for the week, led by rebounds in Mexico and South Africa, following election-related concerns during the last few weeks. This isn't atypical, especially in certain emerging market nations, as a wider band of potential political outcomes (some on the more extreme side), can give way to sighs of relief when new administrations begin to look a bit more moderate and status quo.

Bonds fell back slightly last week, with yields ticking up across the U.S. Treasury yield curve, by several basis points from the 2-year area out to the 30-year. High yield outperformed slightly with positive results. Internationally, bonds lost ground in developed markets due to the secondary headwind of a stronger dollar, while emerging market bonds saw gains.

Commodities were mixed for the week, with energy up several percent, offset by agriculture down -4% (mostly due to higher wheat supplies), while metals were little changed. Crude oil prices rose over 3% last week to $81/barrel, due to lower U.S. supply reports and ramped up Israel-Gaza military activity.

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, 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.

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