# Market Insights - March 3, 2023

# MARKETS SNAP LOSING STREAK AS YIELDS DECLINE, THE HOUSING MARKET SURPRISES ON THE UPSIDE AND TREASURIES TAKE A BREATHER

- Equity markets rallied this week, especially on Friday, as the housing market and manufacturing surprised on the upside
- There were still plenty of worries that the Fed might not engineer a soft landing, as weekly jobless claims remained very low, as unit labor costs rose 6.3% from the same quarter last year
- When the week was over, NASDAQ leapt 2.6%, followed by the smaller-cap Russell 2000 (+2.0%), the S&P 500 (+1.9%) and the mega-cap DJIA (+1.7%)
- Of the 11 S&P 500 sectors, 9 of them were painted green, led by the odd combination of Materials (+4.0%), Communication Services (+3.3%), and Industrials (+3.3%)
- The sectors painted red this week were Utilities (-0.7%) and Consumer Staples (-0.4%)
- Durable goods orders declined 4.5% month-over-month in January
- Pending home sales rose 8.1% in January
- The ISM Manufacturing Index rose to 51.3% from 44.5%, marking the first price increase in four months
- The 10-year Treasury yield leapt past 4.00%, hitting 4.07% at its high, before pulling back to 3.96% by Friday's close
- The 2-year Treasury on the other hand, rose eight basis points to 4.86%
- The U.S. Dollar Index fell 0.7% for the week to 104.50
- WTI crude oil futures rose 4.6% this week to $79.79/barrel

**Weekly Market Update – March 3, 2023**

| | Close | Week | YTD |
|---|---|---|---|
| DJIA | 33,391 | +1.7% | +0.7% |
| S&P 500 | 4,046 | +1.9% | +5.4% |
| NASDAQ | 11,689 | +2.6% | +11.7% |
| Russell 2000 | 1,928 | +2.0% | +9.5% |
| MSCI EAFE | 2,070 | +1.8% | +6.5% |
| Bond Index* | 2,039.09 | -0.26% | +0.47% |
| 10-Year Treasury | 3.96% | +0.01% | -0.0% |

**Source: Bonds represented by the Bloomberg Barclays US Aggregate Bond TR USD. This chart is for illustrative purposes only and does not represent the performance of any specific security. Past performance cannot guarantee future results*

## Markets Jump As Pending Home Sales Surprise

Equities snapped a long, weekly losing streak – four weeks for the DJIA – and posted significant green numbers, as Friday was one of the year's biggest daily gains. Surprisingly, the defensive Energy and Materials sectors were very strong, as were Communication Services, helped by a big gain in Facebook (Meta).

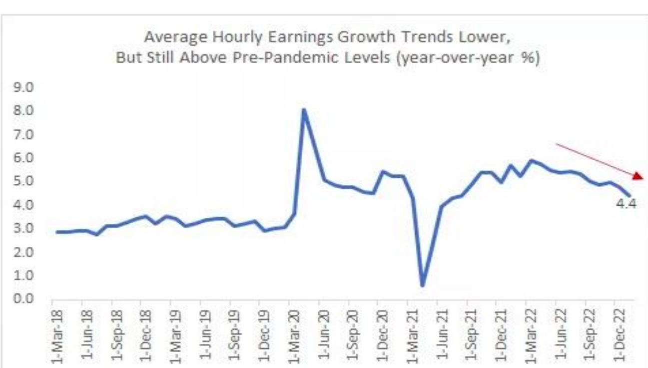
Across the pond, investors saw good numbers too, including:

- The pan-European STOXX Europe 600 Index gained 1.4%

- Germany's DAX Index added 2.4%
- France's CAC 40 Index gained 2.2%
- Italy's FTSE MIB Index climbed 3.1%
- The UK's FTSE 100 added 0.9%

This week saw a slew of economic reports, most of which were mixed, including:

- The Commerce Department reported that orders for non-defense capital goods excluding aircraft rose 0.8% in January
- Overall durable goods orders posted their steepest decline since April 2020
- Wholesale inventories fell for the first time since July 2020
- Retail inventories (excluding autos) rose slightly
- The Institute for Supply Management's manufacturing Purchasing Managers' Index moved higher for the first time since May
- Pending home sales leapt 8.1%
- December FHFA Housing Price Index was down 0.1%;
- Weekly MBA Mortgage Applications Index were off 5.7%
- January Construction Spending was down 0.1%
- Weekly Initial Claims were 190K, less than expected
- Hourly earnings were down




## Pending Home Sales Jump 8.1%

Pending home sales improved in January for the second consecutive month, according to the National Association of Realtors. All four U.S. regions posted monthly gains but saw year-over-year drops in transactions.

The Pending Home Sales Index, a forward-looking indicator of home sales based on contract signings, improved 8.1% to 82.5 in January. Year-over-year, pending transactions dropped by 24.1%. An index of 100 is equal to the level of contract activity in 2001.

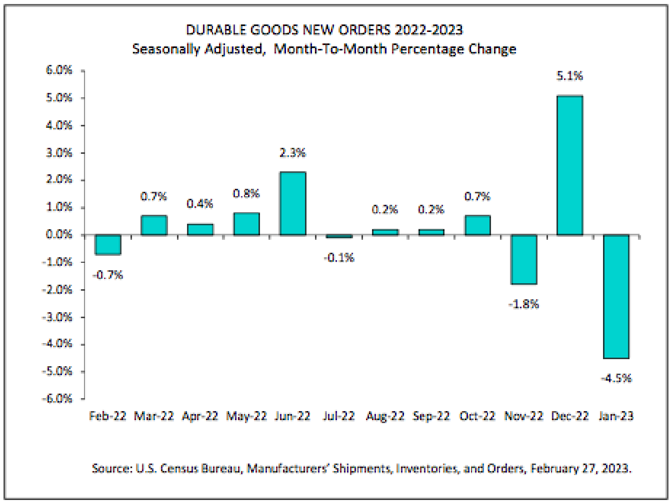

"Buyers responded to better affordability from falling mortgage rates in December and January. NAR anticipates the economy will continue to add jobs throughout 2023 and 2024, with the 30-year fixed mortgage rate steadily dropping to an average of 6.1% in 2023 and 5.4% in 2024.

Home sales activity looks to be bottoming out in the first quarter of this year, before incremental improvements will occur. But an annual gain in home sales will not occur until 2024. Meanwhile, home prices will be steady in most parts of the country with a minor change in the national median home price."

- The Northeast PHSI rose 6.0% from last month to 68.7, a decline of 19.8% from January 2022.
- The Midwest index grew 7.9% to 83.3 in January, a drop of 21.1% from one year ago.
- The South PHSI increased 8.3% to 99.2 in January, dipping 24.7% from the prior year.
- The West index elevated 10.1% in January to 66.2, diminishing 29.3% from January 2022.

# Durable Goods Orders Sink by 4.5%

On Tuesday, the U.S. Census Bureau announced the January advance report on durable goods manufacturers' shipments, inventories and orders:




**New Orders**

- New orders for manufactured durable goods in January, down two of the last three months, decreased $13.0 billion or 4.5% to $272.3 billion. This followed a 5.1% December increase.
- Excluding transportation, new orders increased 0.7%. Excluding defense, new orders decreased 5.1%.
- Transportation equipment, also down two of the last three months, drove the decrease, $14.2 billion or 13.3% to $92.8 billion.

**Shipments**
Shipments of manufactured durable goods in January, down following sixteen consecutive monthly increases, decreased $0.2 billion or 0.1% to $277.2 billion. This followed a 0.4% December increase. Transportation equipment, down following ten consecutive monthly increases, drove the decrease, $1.6 billion or 1.7% to $92.2 billion.

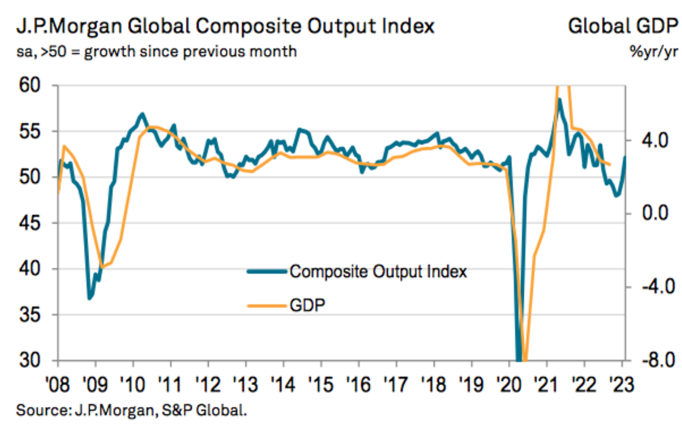
**Unfilled Orders**
Unfilled orders for manufactured durable goods in January, up twenty-nine consecutive months, increased $0.3 billion or virtually unchanged to $1,157.0 billion. This followed a 1.1% December increase. Transportation equipment, up twenty-three of the last twenty-four months, drove the increase, $0.7 billion or 0.1% to $684.6 billion.

**Inventories**
Inventories of manufactured durable goods in January, down following twenty-three consecutive monthly increases, decreased $0.4 billion or 0.1% to $493.1 billion. This followed a 0.7% December increase. Transportation equipment, down following two consecutive monthly increases, led the decrease, $0.3 billion or 0.2% to $158.3 billion.

**Capital Goods**
Nondefense new orders for capital goods in January decreased $15.2 billion or 15.3% to $83.9 billion. Shipments decreased $0.8 billion or 1.0% to $84.3 billion. Unfilled orders decreased $0.4 billion or 0.1% to $664.1 billion. Inventories decreased $0.5 billion or 0.2% to $218.5 billion. Defense new orders for capital goods in January increased $0.6 billion or 3.8% to $15.8 billion. Shipments decreased $0.2 billion or 1.2% to $14.9 billion. Unfilled orders increased $0.9 billion or 0.5% to $189.2 billion. Inventories increased $0.2 billion or 0.9% to $23.2 billion.

**Global Output and New Orders Expand for First Time in 7 months**

The J.P.Morgan Global Composite Output Index posted 52.1 in February, up from 49.7 in January, to post a reading above the neutral 50.0 mark.




"February saw global economic activity and new orders both return to growth, ending six-month sequences of contraction. The renewed upturn in output was led by the services sector and reinforced by the first expansion of manufacturing production since last July.

Five out of the six sub-industries covered by the survey saw economic activity expand during February (business services, consumer goods, consumer services, financial services and investment goods). Although the downturn in the intermediate goods category continued, the rate of contraction eased to a six-month low.

Of the 14 nations for which February data were available, 12 registered expansions of economic output. Rates of growth varied widely, however, from strong upturns in India and Spain to only negligible growth in the US. Mainland China and Japan both saw activity rise for the second successive month. Brazil and Kazakhstan were the only nations to register contractions.

Companies reported that reduced recession risks, a peaking of cost pressures, improving supply chains and a reopening of the Chinese economy had all boosted demand in February. Incoming new business rose for the first time since July 2022, as a solid increase at service providers more than offset a further (albeit slower) decrease at manufacturers. The uplift in demand was led by the household sector, with the consumer goods and consumer services industries seeing the fastest rates of growth in new business. New work received also rose in the business services, financial services and investment goods industries (the latter two seeing growth return following recent contractions). In contrast, new business fell at intermediate goods manufacturers. Measured overall, international trade flows declined to the least marked extent since June.

*Sources:census.gov; spglobal.com; nar.realtor; msci.com; fidelity.com; nasdaq.com; wsj.com; morningstar.com*