Market Update

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This week in the markets....

Markets have rebounded for eight straight days since the end of April's 5% pullback in the major US indices. Bond markets have aided the rally as the US10Y yield has retreated throughout the same period from 4.7% at the end of April to 4.4% as of Thursday, but Friday saw the yields move back to 4.5% which is a surprise given the momentum over the last two weeks. The bond market is generally focused on the right now rather than the future focus of the stock market, and the stubbornly high yield on the US10Y may be a sign that the Fed pivot that was the hope of the US market may be gone until much later this year (if at all). However, look for new demand from the Fed for bond purchases as the balance sheet deleveraging program called Quantitative Tightening or QT is set to be cut in half in the coming weeks (meaning the Fed will begin to replace maturing bonds in their treasury bond portfolio at the rate of $45B per month).

This week will be a contest between the certainty of Fed policy and enormous stock buybacks and the uncertainty of brewing potential problems, so look for days of shallow volatility in the equity markets and watch the US10Y and its fluctuation around 4.5% to gauge the reality of the concerns which I will address below.

Market Performance

	05/03/2023	1/1/2024	05/13/23	12 MO ROR	YTD ROR
DOW	33544.193	37566.22	39484.87	17.71%	4.72%
S&P 500	4140.2283	4745.2	5222.07	26.13%	9.41%
NASD AQ	12315.713	14873.7	16341.72	32.69%	8.78%

Consumer Spending

In the last quarter, the conversation around the dinner table might have shifted from what's happening on TV to how much it costs to fill up the car or the sticker shock on the weekly groceries. This isn't just casual chat; it's a reflection of broader economic trends that are shaping the way consumers spend money.

Specifically, I want to dive into the topic of consumer spending and how recent economic pressures are influencing it. One key factor we're observing is the impact of inflation and rising interest rates, which are particularly squeezing the budgets of lower-income households. Companies that cater to these consumers, including giants like PepsiCo and Kraft Heinz, have voiced concerns about the toll these economic conditions are taking. With less disposable income, families are having to make tough choices, often cutting back on non-essential goods and services. This shift is echoed in the fast-food industry, where chains like McDonald's and Taco Bell are seeing a decline in sales as customers grapple with higher prices - a stark change from just a decade ago. Furthermore, retailers such as Canadian Tire have reported a dip in revenue, signaling a broader trend of cautious consumer behavior driven by the high cost of living and uncertainty about the future.

The April Conference Board ***Consumer Confidence Index***® verified these trends as consumers registered growing concern. “Consumer Confidence retreated further in April, reaching its lowest level since July 2022 as consumers became less positive about the current labor market situation, and more concerned about future business conditions, job availability, and income,” said Dana M. Peterson, Chief Economist at The Conference Board. “Despite April’s dip in the overall index, since mid-2022, optimism about the present situation continues to more than offset concerns about the future."

US Treasury Bond Yields

US1MO	5.37%
US3MO	5.39%
US6MO	5.38%
US1Y	5.18%
US3Y	4.67%
US5Y	4.52%
US10Y	4.50%
US30Y	4.65%

Weekly Jobless Claims Climb

Initial filings for unemployment benefits have hit their highest level since late August 2023, a potential sign that an otherwise robust labor market is changing.

In April:

- Confidence declined among consumers of all age groups and almost all income groups except for the $25,000 to $49,999 bracket.
- Consumers under 35 continued to express greater confidence than those over 35. In April
- Households with incomes below $25,000 and those with incomes above $75,000 reported the largest deteriorations in confidence.
- Over a six-month basis, confidence for consumers earning less than $50,000 has been stable, but confidence among consumers earning more has weakened.

On Friday, the University of Michigan Survey of Consumers sentiment index for May posted an initial reading of 67.4 for the month, down from 77.2 in April and well off the Dow Jones consensus call for 76. The move represented a one-month decline of 12.7%. Along with the downbeat sentiment measure, the outlook for inflation across the one- and five-year horizons increased. The one-year outlook jumped to 3.5%, up 0.3 percentage point from a month ago to the highest level since November.

Also, the five-year outlook rose to 3.1%, an increase of just 0.1 percentage point but reversing a trend of lower readings in the past few months, also to the highest since November.

“All things considered, however, the magnitude of the slump in confidence is pretty big and it isn’t satisfactorily explained by” geopolitical factors or the mid-April stock market sell-off, wrote Paul Ashworth, chief North America economist at Capital Economics. “That leaves us wondering if we’re missing something more worrying going on with the consumer.”

Sources:

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