

MARKET UPDATE

MARKET MONTH: AUGUST 2023

As of August 31, 2023

August proved to be a tough month for stocks, with each of the benchmark indexes listed here ending the month notably lower. Investors tried to decipher mixed economic data throughout the month, attempting to gauge the course of the economy, while trying to determine what the Federal Reserve will do with interest rates moving forward.

Speaking of the Federal Reserve, it did not meet in August, so interest rates remained unchanged. However, Fed Chair Jerome Powell spoke at the Jackson Hole Economic Symposium (see below) and reiterated the Fed's intent to continue its restrictive policy until interest rates fell to 2.0%.

Throughout Europe and North America, countries continued to direct economic policy aimed at curtailing consumer price increases. Though inflation certainly cooled, it remained well above targeted levels, prompting central banks to focus policy toward stifling rising prices.

Consumers increased their spending on durable goods and nondurable goods and services. The increase in spending included higher prices for energy. Gross domestic product accelerated in the second quarter (see below), but at a slower pace than in the first quarter. Nevertheless, the economy has advanced each quarter since the second quarter of 2022.

Job growth slowed since the first quarter. The monthly average for job gains in the second quarter was 228,000 compared to 312,000 in the first quarter. Wages continued to rise, however, increasing nearly 4.4% over the last 12 months. Unemployment claims are up from a year ago (see below).

Corporate profits in the United States rose by 1.6% in the second quarter of 2023, surpassing market expectations that predicted a nearly 6.0% decline. Of the 91.2% of S&P 500 companies that reported earnings results, 78.7% reported earnings above analyst expectations, which surpasses the prior four-quarter average of 73.4% and is well-above the long-term average of 66.4%.

The secondary housing market retreated, primarily due to lack of inventory and advancing mortgage rates. However, sales of new homes advanced. Sale prices for existing homes declined, while prices for new, single-family homes increased.

Industrial production, which had declined for two straight months, picked up the pace, albeit minimally (see below). According to the latest survey from the S&P Global US Manufacturing Purchasing Managers' Index™, purchasing managers also noted a retraction in manufacturing. However, the services sector remained strong.

While the economy remained relatively strong, the stock market followed a strong July with a tepid August. The economic-sensitive Russell 2000 was hit the hardest, falling more than 5.0%. The S&P 500 and the Nasdaq each snapped streaks of five straight months of gains. Overall, despite the August downturn, stocks remained in the black for the year.

Each of the market sectors ended August lower, with the exception of energy, which gained 1.3%. Utilities fell more than 6.5%, while consumer staples and real estate dropped more than 3.0%.

Bond prices fell in August, with yields increasing over the previous month. Ten-year Treasury yields rose 18.0 basis points from July. The 2-year Treasury yield ended August at 4.86%, down 5.0 basis points from a month earlier. The dollar climbed higher against a basket of world currencies. Gold prices ended August lower. Crude oil prices climbed in August for the third straight month. After falling for much of the year, a cutback in crude oil production has driven prices higher. Rising oil prices also impacted prices at the pump. The retail price of regular gasoline was \$3.813 per gallon on August 28, \$0.056 higher than the price a month earlier but \$0.014 lower than a year ago.

STOCK MARKET INDEXES

Market/Index	2022 Close	Prior Month	As of August 31	Monthly Change	YTD Change
DJIA	33,147.25	35,559.53	34,721.91	-2.36%	4.75%
Nasdaq	10,466.48	14,346.02	14,034.97	-2.17%	34.09%
S&P 500	3,839.50	4,588.96	4,507.66	-1.77%	17.40%
Russell 2000	1,761.25	2,003.18	1,899.68	-5.17%	7.86%
Global Dow	3,702.71	4,257.15	4,130.12	-2.98%	11.54%
Fed. Funds Target Rate	4.25%-4.50%	5.25%-5.50%	5.25%-5.50%	0 bps	100 bps
10-year Treasuries	3.87%	3.95%	4.09%	14 bps	22 bps
US Dollar-DXY	103.48	101.89	103.64	1.72%	0.15%
Crude Oil-CL=F	\$80.41	\$81.76	\$83.53	2.16%	3.88%
Gold-GC=F	\$1,829.70	\$2,003.70	\$1,966.10	-1.88%	7.45%

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark the performance of specific investments.

LATEST ECONOMIC REPORTS

Employment: Employment rose by 187,000 in July from June, less than the average monthly gain of 312,000 over the prior 12 months. In July, employment trended upward in health care, social assistance, financial activities, and wholesale trade. The unemployment rate edged down 0.1 percentage point for the second straight month to 3.5%. In July, the number of unemployed persons fell by 116,000 to 5.8 million. The employment-population ratio, at 60.4%, ticked up 0.1 percentage point, while the labor force participation rate, at 62.6%, was unchanged. In July, average hourly earnings increased by \$0.14 to \$33.74. Over the 12 months ended in July, average hourly earnings rose by 4.4%. In July, the average workweek edged down 0.1 hour to 34.3 hours.

There were 228,000 initial claims for unemployment insurance for the week ended August 26, 2023. The total number of workers receiving unemployment insurance was 1,725,000. By comparison, over the same period last year, there were 206,000 initial claims for unemployment insurance, and the total number of claims paid was 1,343,000.

FOMC/interest rates: The Federal Open Market Committee did not meet in August. However, Federal Reserve Chair Jerome Powell spoke before the 2023 Jackson Hole Economic Symposium. His remarks reinforced the Fed's intent to bring inflation down to its 2.0% target. The Fed Chair noted that, although inflation has moved down from its peak, it remains too high. Powell reiterated the Fed's stance that it is prepared to raise rates further and to maintain its restrictive economic policy until the 2.0% target rate has been achieved. The Federal Reserve is scheduled to meet next in September.

GDP/budget: Economic growth remained steady in the second quarter, as gross domestic product increased 2.1%, compared with a 2.0% increase in the first quarter. The acceleration in second-quarter GDP compared to the previous quarter primarily reflected a smaller decrease in private inventory investment and an acceleration in nonresidential fixed investment. These movements were partly offset by a downturn in exports, and decelerations in consumer spending and federal government spending. Imports turned down. Consumer spending, as measured by personal consumption expenditures, rose 1.7% in the second quarter compared to a 4.2%

increase in the first quarter. Consumer spending on long-lasting durable goods inched down 0.3% in the second quarter after advancing 16.3% in the prior quarter. Spending on services rose 2.2% in the second quarter (3.2% in the first quarter). Nonresidential fixed investment increased 6.1% after rising 0.6% in the first quarter. Residential fixed investment fell 3.6% in the second quarter, little changed from the first quarter (-4.0%). Exports decreased 10.6% in the second quarter, following an increase of 7.8% in the first quarter. Imports, which are a negative in the calculation of GDP, decreased 7.0% in the second quarter after advancing 2.0% in the previous quarter. Consumer prices increased 2.5% in the second quarter compared to a 4.1% advance in the first quarter. Excluding food and energy, consumer prices advanced 3.7% in the second quarter (4.9% in the first quarter).

The federal budget had a \$220.8 billion deficit in July, nearly \$10.0 billion above the July 2022 budget deficit. Through the first 10 months of fiscal year 2023, the deficit was \$1.613 trillion compared to \$726.1 billion through the comparable period of the previous fiscal year. In July, government receipts totaled \$276.2 billion for the month and \$3.689 trillion for the current fiscal year. Government outlays were \$496.9 billion in July and \$5.302 trillion through the first 10 months of fiscal year 2023. By comparison, receipts in July 2022 were \$269.3 billion and \$4.105 trillion through the first 10 months of the previous fiscal year. Expenditures were \$480.4 billion in July 2022 and \$4.831 trillion through the comparable period in FY22.

Inflation/consumer spending: According to the latest Personal Income and Outlays report, consumer spending increased 0.8% in July and 9.1% since July 2022. Personal income rose 0.2% in July, while disposable personal income was unchanged from June. Consumer prices rose 0.2% in July, matching the June increase. Consumer prices excluding food and energy (core prices) also rose 0.2% in July. However, over the 12 months ended in July, consumer prices increased 3.3%, 0.3 percentage point above the rate for the period ended in June.

The Consumer Price Index rose 0.2% in July, the same increase as in June. Over the 12 months ended in July, the CPI advanced 3.2%, up from 3.0% for the year ended in June. Core prices, excluding food and energy, rose 0.2% in July and 4.7% over the last 12 months, marking the lowest 12-month rate since October 2021. Prices for shelter, which rose 0.4%, contributed more than 90.0% of the overall increase in the June CPI. Also advancing in July were prices for food (0.2%), energy (0.1%), and medical care commodities (0.5%). For the 12 months ended in July, food prices have increased 4.9%, while energy prices have fallen 12.5%.

Prices that producers received for goods and services increased 0.3% in July after being unchanged in June. Producer prices increased 0.8% for the 12 months ended in July. Driving the overall increase in producer prices was a 0.5% jump in prices for services. Goods prices inched up 0.1%. Producer prices excluding food, energy, and trade services rose 0.2% in July and 2.7% for the year. Energy prices were unchanged in July but were down 16.8% since July 2022. Food prices advanced 0.5% in July but were down 0.2% for the 12 months ended in July.

Housing: Sales of existing homes decreased 2.2% in July following a 3.4% decline in June. Since July 2022, existing-home sales dropped 16.6%. According to the report from the National Association of Realtors®, two factors have stifled sales activity: rising mortgage rates and limited inventory. In July, total existing-home inventory sat at a 3.3-month supply at the current sales pace, up from 3.1 months in June. The median existing-home price was \$406,700 in July, down from the June price of \$410,000. Sales of existing single-family homes dropped 1.9% in July and 16.3% from July 2022. The median existing single-family home price was \$412,300 in July, down from the June price of \$415,700 but above the July 2022 price of \$405,800.

New single-family home sales increased in July, advancing 4.4% after falling 2.9% in June. Overall, single-family home sales were up 31.5% from a year earlier. The median sales price of new single-family houses sold in July was \$436,700 (\$416,700 in June). The July average sales price was \$513,000 (\$507,300 in June). The inventory of new single-family homes for sale in July decreased to 7.3 months, down from 7.5 months in June.

SEPT. KEY DATES/ DATA RELEASES

- 9/1:** S&P Manufacturing PMI, employment situation
- 9/6:** International trade in goods and services, S&P Services PMI
- 9/13:** Consumer Price Index, Treasury statement
- 9/14:** Producer Price Index, retail sales
- 9/15:** Industrial production, import and export prices
- 9/19:** Housing starts
- 9/20:** FOMC meeting statement
- 9/21:** Existing home sales
- 9/26:** New home sales
- 9/27:** Durable goods orders
- 9/28:** GDP
- 9/29:** Personal income and outlays, international trade in goods

Manufacturing: Industrial production advanced 0.1% in July after declining in both May and June. Manufacturing rose 0.5% in July, driven higher, in part, by a 5.2% increase in motor vehicles and parts. Factory output edged up 0.1%. In July, mining moved up 0.5%, while utilities increased 5.4%. Total industrial production in July was 0.2% below its year-earlier level. Most major market groups recorded growth in July. The production of consumer durables was boosted by a jump of 4.8% in the output of automotive products. Similarly, the abnormally hot weather in July lifted the indexes of energy consumer goods and energy materials, which advanced 3.7% and 2.1%, respectively.

New orders for durable goods fell for the first time in the last five months in July, after declining 5.2%. This followed a 4.4% June increase. Excluding transportation, new orders increased 0.5%. Excluding defense, new orders decreased 5.4%. Transportation equipment, also down following four consecutive monthly increases, drove the decrease, falling 14.3%.

Imports and exports: July saw both import and export prices increase. Import prices rose 0.4%, following a 0.1% decline in June. The July increase in import prices was only the second monthly advance of 2023. Imports declined 4.4% over the past year. Import fuel prices rose 3.6% in July, while nonfuel import prices were unchanged. Export prices rose 0.7% in July after declining 0.7% in the previous month. The advance in July was the largest monthly increase since a 1.1% rise in June 2022. Higher prices in July for both agricultural and nonagricultural exports contributed to the overall advance. Despite the July increase, U.S. export prices fell 7.9% for the 12 months ended in July 2023.

The international trade in goods deficit increased \$2.3 billion, or 2.6%, in July. Exports of goods increased 1.5% from June, while imports of goods decreased 1.9%.

The latest information on international trade in goods and services, released August 8, was for June and revealed that the goods and services trade deficit fell \$2.8 billion, or 4.1%, from May. Exports for June were \$0.3 billion, or 0.1%, below May exports. Imports were \$3.1 billion, or 1.0%, less than May imports. Year to date, the goods and services deficit decreased \$117.7 billion, or 22.3%, from the same period in 2022. Exports increased \$37.6 billion, or 2.5%. Imports decreased \$80.1 billion, or 4.0%.

International markets: While inflationary pressures may have eased somewhat over the last few months, current data shows that several European nations still face inflated prices, indicating that central banks still have more work to do. The Eurozone harmonised index of consumer prices (HICP) came in at 5.3% for the 12 months ended in August, unchanged from the annual rate for July. The United Kingdom's Consumer Price Index dipped lower to 6.8% in July, still well above the 2.0% target rate. Elsewhere, China's economy showed further signs of weakening in August. The Chinese real estate market continued to slump, factories saw exports decline, while consumer spending waned. For August, the STOXX Europe 600 Index increased 0.4%; the United Kingdom's FTSE fell 0.6%; Japan's Nikkei 225 Index rose 1.4%; and China's Shanghai Composite Index dropped 4.9%.

EYE ON THE MONTH AHEAD

The Federal Open Market Committee meets in September, having not convened since July. Indications are that the Committee may be inclined to hike interest rates up 25.0 basis points at this time, and possibly once more before the end of the year. Despite seeing interest rates increased to historic levels, the economy has survived thus far. Gross domestic product has risen in each of the first two quarters of the year. While manufacturing and housing have slowed, job gains have remained steady, while unemployment has changed minimally throughout the year.

Consumer confidence: Consumer confidence declined in August, reversing monthly increases in June and July. The Conference Board Consumer Confidence Index[®] decreased in August to 106.1, down from 114.0 in July (revised). The Present Situation Index, based on consumers' assessment of current business and labor market conditions, fell to 144.8 in August, down from 153.0 in the previous month. The Expectations Index, based on consumers' short-term outlook for income, business, and labor market conditions, declined to 80.2 in August from 88.0 in July.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment

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