## The Weekly Market Update – 6/5/23: Jobs Gains & Debt Deal Lift Spirits

| Major Indices (Price Returns) | Close | Last Week | Quarter-to-Date | Year-to-Date | Trailing 12-Months | All-Time High | % to High |
|---|---|---|---|---|---|---|---|
| S&P 500 | 4,282.37 | 1.83% | 4.21% | 11.53% | 3.64% | 4,796.56 | 12.0% |
| Dow Jones Industrial Average | 33,762.76 | 2.02% | 1.47% | 1.86% | 2.34% | 36,799.65 | 9.0% |
| NASDAQ Composite | 13,240.77 | 2.04% | 8.34% | 26.51% | 9.60% | 16,057.44 | 21.3% |
| Russell 2000 | 1,830.91 | 3.26% | 1.58% | 3.96% | -1.78% | 2,442.74 | 33.4% |
| MSCI EAFE (USD) | 2,097.69 | 0.81% | 0.24% | 7.91% | 2.94% | 2,398.71 | 14.4% |
| MSCI Emerging Markets (USD) | 984.36 | 1.18% | -0.60% | 2.93% | -8.66% | 1,444.93 | 46.8% |
| Bloomberg Commodity Index | 99.82 | -0.26% | -5.39% | -11.51% | -24.00% | 237.95 | 138.4% |
| Barclays U.S. Aggregate Bond | 89.96 | 0.85% | -1.24% | 1.21% | -4.59% | 112.07 | 24.6% |

*Source: FactSet*

**Major equity indices again moved higher as Congress passed a bill to suspend the U.S. debt ceiling and investors cheered a robust May U.S. jobs report.** The widely followed, large-company S&P 500 equity index gained 1.8% last week; its closing price of 4,282 was the highest since August of last year. After pulling back in early May (the index gained 0.3% for the full month), the S&P 500 rallied each of the past three weeks, driving gains (not including dividends) of 4.2% in the second quarter to-date (3/31/23 to 6/2/23) and 11.5% year-to-date (YTD) through 6/2/23. The U.S. debt ceiling was suspended until January 2025, averting a potential funding crisis that created headline risk in markets. The signed bill allows "business as usual" at the U.S. Treasury, enabling the U.S. government to pay its obligations. On Friday, the U.S. Bureau of Labor Statistics (BLS) reported that nonfarm payrolls (jobs) increased by 339 thousand (K) in May, the highest monthly increase in the past four months and well above the 188K FactSet consensus estimate (from Wall Street economists). The jobs data, despite including a couple of moderating data points, supports the view that ongoing labor market strength contributes directly to solid trends in consumer spending. The May employment gains, along with upward revisions to the March and April jobs data, led to the first increase in the 3-month average monthly jobs gains in ten months (since August 2022). For the 3-months through May 2023, monthly jobs gains averaged 283K, compared to the 253K monthly jobs gains averaged through the three months ending April 2023. An alternative measure of employment (the BLS' Household survey) showed lower monthly jobs, contributing to a higher unemployment rate of 3.7%, up from 3.4% in April. Still, the unemployment rate has ranged between 3.4% to 3.7% for each of the past 15 months. Wages, as measured by average hourly earnings (AHE), increased 4.3% in May (vs. 4.4% in April), reflecting a solid Y/Y increase, but not keeping pace with the most recent (April) consumer price index (CPI, the BLS' measure of consumer inflation) of 4.9%. With the weekly data being well-received by market bulls and the S&P 500 moving to new 2023 highs, equities appear poised to move higher over the near-term. But we remain concerned that valuations are increasingly extended.

**The lifting of the U.S. debt ceiling is expected to lead to an active calendar of new government debt issuance as the U.S. Treasury replenishes its cash accounts.** Since the U.S. federal debt reached its previous $31.4 trillion (T) approved limit in January this year, the Treasury used accounting measures and its general account to keep government spending on track. Treasury cash balances (Treasury General Account) exceeded $500 billion (B) in late January but had dropped to $23B on 6/1/23. Given the low cash balance and ongoing U.S. deficits (on 5/13/23, the Congressional Budget Office estimated a fiscal 2023 annual U.S. federal deficit of $1.5T, and a fiscal 2024 deficit of $1.6T), the Treasury is likely to initiate a new wave of borrowing in June (Bloomberg estimates up to $1.0T). Large-scale debt issuance could lead to higher short-term interest rates, drain bank reserves (if used to finance the debt), and restrict credit which could weigh on economic growth. In our view, this should create higher volatility in stock and bond markets in June.

**On the heels of a strong May jobs report, the U.S. economy remains resilient.** While the FactSet consensus estimate for 2023 U.S. GDP (gross domestic product – the value of goods and services produced) is 1.1% (as of 6/2/23), compared to 2.1% in 2022, the 2023 estimate was 0.4% at the end of January. Economic data has pushed back on the early 2023 "recession" expectation and many investors now see a "soft landing" (slow growth but no recession). Should consumer spending slow, the recession fear could push to 2024.

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