The Weekly Market Update – 7/3/23: Equities Navigate Challenges; Post Strong First Half

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,450.38	2.35%	8.30%	15.91%	17.57%	4,796.56	7.8%
Dow Jones Industrial Average	34,407.60	2.02%	3.41%	3.80%	11.80%	36,799.65	7.0%
NASDAQ Composite	13,787.92	2.19%	12.81%	31.73%	25.02%	16,057.44	16.5%
Russell 2000	1,888.73	3.68%	4.79%	7.24%	10.58%	2,442.74	29.3%
MSCI EAFE (USD)	2,131.72	1.62%	1.87%	9.66%	15.46%	2,398.71	12.5%
MSCI Emerging Markets (USD)	989.48	-0.25%	-0.08%	3.46%	-1.12%	1,444.93	46.0%
Bloomberg Commodity Index	101.48	-0.85%	-3.82%	-10.04%	-13.30%	237.95	134.5%
Barclays U.S. Aggregate Bond	89.79	-0.32%	-1.42%	1.02%	-3.07%	112.07	24.8%

Source: FactSet

The S&P 500 equity index gained 15.9% (without dividends) over the first two quarters of 2023, the best first half return since 2019. Propelled by a strong June rally (+6.5%), the widely followed large-company S&P 500 equity index continued a surprising run this year posting gains in four consecutive months (March, April, May and June), navigating through multiple investor concerns. Notable market headwinds in 2023 included: 1) negative year-over-year (Y/Y) earnings growth as S&P 500 earnings (market capitalization-weighted for all index constituents) declined -2.0% Y/Y in the first quarter (1Q23) after dropping -4.6% in 4Q22; 2) an early-March 2023 banking crisis when many regional banks faced deposit withdrawals and higher interest rates, and 3) a since-resolved Federal government budget impasse as the U.S. Congress negotiated an increase in the debt ceiling. While several factors likely contributed to first-half equity market strength, we point to resilient consumer spending driving better-than-expected economic growth as a key driver. According to the U.S. Bureau of Economic Analysis (BEA), consumer spending grew 4.2% (annualized growth from the prior quarter, adjusted for inflation) in 1Q23, the strongest quarterly growth in nearly two years (since 2Q21). With consumer spending comprising 71% of the U.S economy in 1Q23, U.S. real GDP (gross domestic product, or the value of goods and services produced, adjusted for inflation) increased 2.0% in the quarter, significantly above the -0.2% FactSet consensus (median estimate from Wall Street economists) estimate as of late-December 2022. As the global economy began to reopen in a post-pandemic environment in mid-2021, consumer spending shifted to favor services (travel, nightlife, elective medical procedures, etc.) over goods (apparel, durable goods, etc.), and in early 2023 spending on both services and goods showed strong growth. This continued in April, although in May spending on goods declined while services continued to grow. A healthy consumer is paced by growth in wages (also reported by the BEA) and the use of pent-up savings accumulated during the pandemic shutdown and helped by government transfer payments. In our view, the largest economic challenge in the second half of 2023 will be the continued resilience of consumer spending.

Market gains broadened in June, but over the first six months, just three S&P 500 sectors beat the overall index. All S&P 500 companies are placed into one of eleven sectors (Global Industry Classification Standards, or GICS), and all eleven were higher in the month of June. But for the YTD (12/31/22 to 6/30/23), just six sectors posted gains, and three (Technology, +42.1%; Communications Services +35.6%; and Consumer Discretionary, +32.3%) exceeded the S&P 500's 15.9% gain. Since the index is weighted by market capitalization (companies with the largest market values comprise a larger part of the index), and handful of large companies drove the bulk of the returns, we would like to see more companies participate in market upside as evidence of a healthy rally that can continue, and perhaps we saw some of that in June. June gains were led by the Consumer, Industrials, and Materials sector, an indication that investors are predicting continued GDP gains ahead.

The second half of 2023 will begin with a truncated trading week, with an early close Monday and the Tuesday 4th of July holiday. As investors return to the office on Wednesday, the focus will be on a series of jobs reports, with May data on jobs openings and unemployment reports covering the month of June. The job openings report (Bureau of Labor Statistics, BLS) is expected to show a decline from the previous month, while Friday's BLS June jobs report is expected to show 215 thousand (K) new jobs created. This would suggest a modest slowdown from 339K new jobs in May.

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