5/30/23

THE WEEK AHEAD

MAINSTREET ADVISORS

THINGS TO WATCH

– BIDEN-MCCARTHY DEAL GOES TO CONGRESS: Saturday night, the Biden administration and House Speaker McCarthy tentatively agreed to suspend the federal debt ceiling until January 2025 and cap non-defense spending near current levels for two years. A majority of the 46-member conservative House Freedom Caucus has voiced displeasure at the deal's lack of meaningful spending cuts. Pramila Jayapal, chair of the 106-member Congressional Progressive Caucus, said Sunday Biden should be concerned about support from his party's left wing, which rejects the deal's expanded work requirements for federal assistance programs.

– JOLTS AND QUITS: On Wednesday, the U.S. Labor Department's Job Openings and Labor Turnover Survey (JOLTS) is projected to show open positions fell for a fourth straight month to 9.44 million from 9.59 million in March. Despite dwindling openings, the ratio of vacancies to total unemployed persons is likely to register around 1.6, well above the historical average. We'll also be looking at the JOLTS quits rate, which tracks the percentage of workers who voluntarily leave their job. The March reading of 2.5% was tied for the lowest level in 24 months, suggesting employees have been less willing to seek out greener pastures.

– MAY PAYROLLS DATA: According to the median estimate in a Bloomberg survey of forecasters, the pace of hiring in the U.S. likely slowed in May to 175,000 jobs added from a three-month average of 222,000 from February through April. Friday's nonfarm payrolls data is also expected to show the unemployment rate ticked up to 3.5% last month and year-over-year average hourly earnings were unchanged at 4.4%.

– CAN THE DOW CATCH A BID? The 30-stock Dow Jones Industrial Average has trailed the technology-dominant Nasdaq by roughly 24% year to date through May 26, the widest performance gap for this nearly five-month period since the Nasdaq's 1971 inception. The Dow's significant exposure to blue chip healthcare, financials, consumer staples, and industrials stocks has been a headwind thus far in 2023.

LAST WEEK'S ECONOMIC DATA	LATEST	3MO PRIOR	CHANGE
New Home Sales (Thousands Annualized)	683	649	▲
S&P Global U.S. Manufacturing PMI	48.5	47.3	▲
S&P Global U.S. Services PMI	55.1	50.6	▲
Core PCE Price Index (Y/Y)	4.7%	4.7%	▼
U. of Mich. Consumer Sentiment	59.2	67.0	▼
U. of Mich. 5-10 year Inflation Expectations	3.1%	2.9%	▲

INDEX	LEVEL	WEEK	YTD	12 MO
DJ Industrial Average	33093.34	-1.00%	-0.16%	-0.36%
NASDAQ	12975.69	2.52%	23.97%	6.96%
S&P 500	4205.45	0.32%	9.53%	1.14%
MSCI EAFE	2080.91	-2.38%	7.05%	2.21%
BB U.S. Aggregate	2073.27	-0.67%	1.20%	-3.82%

KEY BOND RATES	WEEK	1MO AGO	1YR AGO
3-Month T-Bill	5.23%	5.11%	1.03%
10-Year Treasury	3.80%	3.45%	2.75%

REPORTS DUE THIS WEEK	LATEST
S&P CoreLogic CS 20-City U.S. HPI (Y/Y)	0.4%
JOLTS Job Openings (Millions)	9.59
ISM Manufacturing PMI	47.1
Non-Farm Payrolls (Thousands)	253
Unemployment Rate	3.4%
Average Hourly Earnings (Y/Y)	4.4%

Price returns are as of 5/26/23. Source data: Bloomberg and Morningstar are believed to be correct but not verified.

NUMBERS OF THE WEEK

5.00%

The implied Fed policy rate at the end of 2023 based on fed funds futures pricing as of Friday, May 26. This is up from 4.18% on May 4, the day after the U.S. central bank lifted its benchmark rate to a range of 5.00% to 5.25%. This implies market participants have unwound expectations for three to four 0.25% Fed rate cuts in the second half of this year. Elevated services inflation, signs of banking sector stabilization, and optimism about a deal to raise the debt ceiling have seemingly shifted expectations.

1.41%

The U.S. equity risk premium (ERP) as of May 26, tied for the lowest level since October 2007. The ERP estimates the excess return available in the stock market by comparing its earnings yield (EY) to a risk-free rate. Aggregated analysts' expectations for S&P 500 operating profits over the next 12 months are $219. The current index level is 4,206, so, its expected EY is 5.21% ($219/4,206). The current U.S. 10-year Treasury note yield of 3.80% is subtracted from the 5.21% EY to get an ERP of 1.41%.

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