Weekly Economic Update – 05-01-2023

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- Economic data for the week included Q1 U.S. GDP growth coming in lower than expected gains in durable goods orders, and continued mixed results for housing markets.
- Equities rose last week as earnings came in surpassing low expectations, with the U.S. outperforming international. Bonds fared well as interest rates fell back with weaker economic data. Commodities also fell back generally for the same reasons, with crude oil prices down slightly.

U.S. stocks gained last week, largely due to a strong Thursday, as investors digested a packed week of earnings reports. So far, earnings results for closely watched companies, including tech-related giants Alphabet/Google, Microsoft, Amazon, and Meta/Facebook, have been better than expected. Smaller cap stocks, particularly in the value segment, continue to be hampered by concerns over operating conditions for regional banks. By sector, communications and technology led with gains of 2% or better, while industrials (with a poor showing by UPS), healthcare, and utilities lost ground in the week. Real estate also gained, as interest rates fell back.

Concerns over First Republic Bank rose again, as the bank continued to seek buyers for long-dated treasury securities to strengthen its financial position. Weaker reported revenue and earnings, as well as substantial deposit flight in Q1, didn't help, as the FDIC and Treasury Dept. explored alternatives with the bank teetering on the edge of survival by week's end.

Per FactSet, 50% of S&P 500 companies have now reported earnings for Q1. Nearly 80% of these have reported a positive earnings surprise, and just under 75% a positive revenue surprise. (Naturally, the common quarter-to-quarter earnings 'game' continues, with low expectations creating a low bar for these 'surprises.') From last week's results, the net decline has actually improved from around -7% to now an expected drop of -3.7%. By sector earnings surprise, consumer discretionary and materials have led the way. In terms of overall earnings growth, consumer discretionary, industrials, and energy have led with double-digit growth rates; on the other hand, materials, health care, technology, and communications have led on the downside with over -10% year-over-year declines. Companies with over 50% of revenues from U.S. sources have fared far better than those with foreign-dominated revenue streams.

Foreign stocks were little changed in developed markets, lagging U.S. equities. Similar fears of recession caused by high interest rates continued to drive sentiment, although the Eurozone GDP rose 0.1% in Q1 (versus no change in Q4 2022). Emerging markets ended the week with a minor rise, as gains in Brazil, India, and Mexico offset declines in China. In the latter, industrial goods production continued to run at a negative pace, with government officials continuing to provide stimulus.

Bonds gained as interest rates fell back last week, with government bonds slightly outgaining corporates. Foreign bonds performed positively, with a larger rate impact.

Commodities fell back last week, in every sector except precious metals. Crude oil fell by over a percent during the week to $77/barrel. Losses across the complex were tied to generally weaker economic growth expectations, which are expected to contain demand. This is despite futile (so far) efforts from producers to control supply to some degree, including recent OPEC+ production cuts.

Period ending 4/28/2023	**1 Week %**	**YTD %**
DJIA	0.86	3.53
S&P 500	0.89	9.17
NASDAQ	1.28	17.12
Russell 2000	-1.24	0.89
MSCI-EAFE	0.10	11.53
MSCI-EM	-0.27	2.78
Bloomberg U.S. Aggregate	0.83	3.59

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2022	4.42	4.41	3.99	3.88	3.97
4/21/2023	5.14	4.17	3.66	3.57	3.78
4/28/2023	5.10	4.04	3.51	3.44	3.67

Sources: LSA Portfolio Analytics, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Deutsche Bank, FactSet, Financial Times, Goldman Sachs, JPMorgan Asset Management, Kiplinger's, Marketfield Asset Management, Minyanville, Morgan Stanley, MSCI, Morningstar, Northern Trust, Oppenheimer Funds, Payden & Rygel, PIMCO, Rafferty Capital Markets, LLC, Schroder's, Standard & Poor's, The Conference Board, Thomson Reuters, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wells Capital Management, Yahoo!, Zacks Investment Research. Index performance is shown as total return, which includes dividends, with the exception of MSCI-EM, which is quoted as price return/excluding dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.