

Monday August 21, 2023

SUMMARY-

- I. August market correction continues.*
- II. Bond yields make new highs for the year.*
- III. Consumer spending drives retail sales increases, prompting improved Q3 GDP forecast from Fed.*
- IV. Take advantage of higher rates by increasing duration before yield curve normalizes.*

Good morning:

Against the backdrop of several regional bank failures and endless calls for imminent recession, equities staged an impressive rally from March to July, led by the largest mega-cap tech stocks. More recently, on the hopes that the Fed is nearing the end of its long tightening cycle, declining inflation, and resilient economic data, market participation noticeably started to broaden out to include some previously ignored sectors like energy, industrials, and small caps. However, similar to most Europeans going on holiday in August, this month has seen a pause in equities, along with a modest pullback in many of the year's biggest winners. Major large cap averages were all down another 2–2½% last week on lighter volume. Like a good vacation, this modest consolidation may turn out to be the pause that refreshes before equities regain their upward momentum in the near future.

S&P 500 Index Year-to-Date



Source: FactSet

Part of this month's correction in equities could be attributed to the recent uptick in treasury bond yields. Although the yield curve is still very inverted with the highest yields in the shortest maturities, longer term rates have climbed materially in recent weeks. Last week saw the 10-year Treasury bond hit a new high for the year of nearly 4.3%. Recent signs of stronger economic growth have begun to shift consensus regarding future Fed actions. Even if the Fed is at or near the end of their hikes, bond yields are now pricing in the possibility of higher rates for longer with a Fed that's reluctant to begin cutting rates out of fears of inadvertently reigniting inflation.

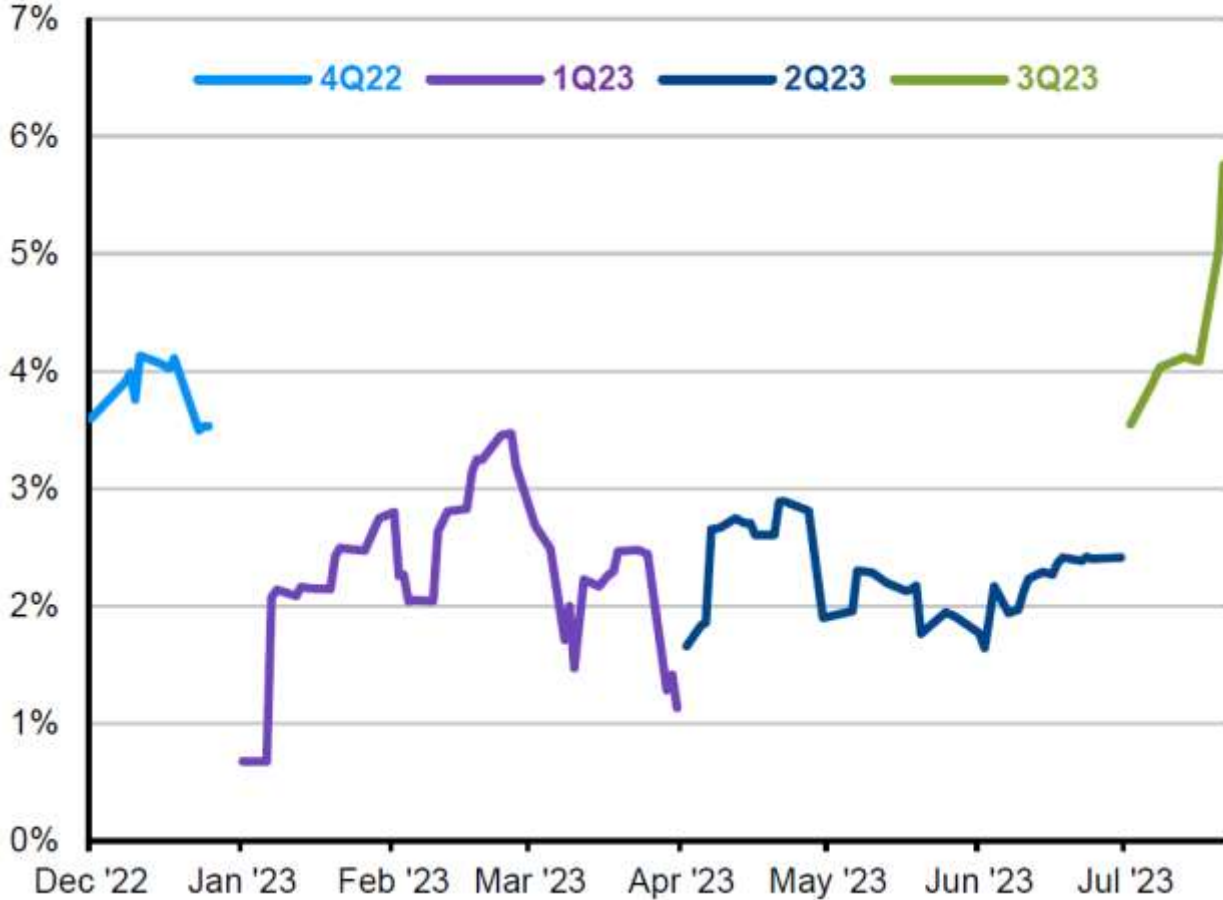


Source: FactSet

As we have often reminded, it is the U.S. consumer that is largely responsible for economic activity, accounting for nearly 2/3 of GDP. For this reason, last week's retail sales data added further evidence that our economy remains resilient. Retail sales handily beat expectations, gaining 0.7% month/month and 1.0% ex-autos. While a 1.9% month/month increase in online sales contributed the most, gains were generally broad-based. Confirming the Fed is closely watching this data, the Atlanta Fed's GDPNow model now estimates that the U.S. economy will grow at a 5.8% seasonally adjusted annualized rate this quarter. If realized, it would mark the fifth consecutive quarter at or above-trend growth. Occurring during a period of aggressive rate hikes makes these results even more impressive and surprising.

Atlanta Fed GDPNow

Real GDP estimate, quarterly % change, seasonally adjusted annualized rate



Source: J.P. Morgan Asset Management

Despite the recent move up in bond yields, we see the yield curve eventually normalizing. This could bring yields down across all maturities but particularly short rates. Investors with money market balances currently enjoying rates above 5% may want to consider preserving some of the higher fixed rate yields in intermediate and longer-term instruments while they are still available. Should the recession that so many have predicted materialize next year, the Fed is likely to begin *cutting* short-term rates in response.

Have a great week!

Mark and Jeff

Mark S. Loftus, CFP®

Managing Partner & Founder, LPWP
Registered Principal, RJFS
CA Insurance License #0C83705

Jeffrey C. Preusser, CFP®

Senior Partner, LPWP
Registered Principal, RJFS
CA Insurance License #0E01600

O: 630.566.9200 // T: 844.890.8750 // F: 630.566.9292
1901 Butterfield Road, Suite 100, Downers Grove, IL 60515
www.loftus-preusser.com



Loftus & Preusser Wealth Partners is not a registered broker/dealer and is independent of Raymond James Financial Services. Securities offered through Raymond James Financial Services, Inc., Member FINRA/SIPC. Investment advisory services offered through Raymond James Financial Services Advisors, Inc.

DISCLAIMER:

If you no longer want to receive this Monday Outlook email, simply reply to this email with "REMOVE" or "OPT OUT" in the subject line and we will remove you from our email list.

Opinions expressed in this email are those of the author and are not necessarily those of Raymond James. The information contained in this report does not purport to be a complete description of the securities, markets, or developments referred to in this material nor is it a recommendation.

The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete.

All investments are subject to risk regardless of strategy selected. Individual investor's results will vary. Past performance does not guarantee future results. Forward looking data is subject to change at any time and there is no assurance that projections will be realized. Diversification and strategic asset allocation do not ensure a profit or protect against a loss.

S&P 500 Index is an unmanaged, market value-weighted index of 500 stocks generally representative of the broad stock market. An investment cannot be made directly in a market index.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

Raymond James and its advisors do not offer tax or legal advice. You should discuss any tax or legal matters with the appropriate professional.

Every type of investment, including mutual funds, involves risk. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

Links are being provided for information purposes only. Raymond James is not affiliated with and does not endorse, authorize, or sponsor any of the listed websites or their respective sponsors. Raymond James is not responsible for the content of any website or the collection or use of information regarding any website's users and/or members.

Raymond James is not affiliated with and does not endorse, authorize, or sponsor the above-named organizations or individuals.

Certified Financial Planner Board of Standards, Inc. (CFP Board) owns the certification marks CFP®, CERTIFIED FINANCIAL PLANNER™, and CFP® (with plaque design) in the United States, which it authorizes use of by individuals who successfully complete CFP Board's initial and ongoing certification requirements.