MONTHLY MARKET UPDATE
August 2023

OPAL WEALTH ADVISORS

Financial markets in August gave back some ground following strong performances in June and July with most equity and bond markets declining. The goldilocks soft landing narrative in June and July slowly grew a bit more anxious as good news was viewed as bad news in the form of higher interest rates for a longer period of time. Good news was emanating primarily out of the U.S. while Chinese and European economies languished. The U.S. continued to see signs of healthy personal consumption, decelerating trends in inflation data, cooling labor market tightness, and a remarkably resilient housing market. We continued to see signs of credit stress across consumer, real estate, and commercial loan markets alongside tightening bank lending standards.

There was no FOMC meeting, but the annual Kansas City Fed Jackson Hole Economic Symposium allowed for global central bankers, including the Fed, to make clear there is more work to do on taming inflation. Risks of a second wave of inflation seem tangible with rising energy prices, tight labor markets, inflation-oriented survey data, and marginally supportive fiscal policy.

The S&P 500 closed the month down 1.6%, leaving year to date gains still over 18%, while the average stock in the Russell 1000 was up 11.4% on the year. International equity markets struggled with the headwind of sluggish economic growth and a resurgent USD, resulting in a 3.8% decline in developed markets while emerging markets fell 6.2% thanks to China falling 9% on the month. Energy stocks were the only winner on the month as WTI crude oil rallied 3.25% in August, now up 20% over the past two months.

Interest rates continued to move higher in August, particularly on the long end, where 10yr UST yields, closing at 4.09%, touched their highest levels since 2007 while the 6-month T-bill hit a 22-year high. High and rising debt levels of the U.S. Government drove Fitch to strip the U.S. of its AAA credit rating while surging treasury issuance to meet the deficit spending demands alongside persistent inflation pressures combined to put upward pressure on rates.

Market Anecdotes

- Bespoke reminded us that while September has historically been the worst month of the year (DJIA), October-December have historically been the best. That said, comments like that call for a reminder of the cost of timing the market which, absent a crystal ball, really doesn't work well.
- The first eight months of the year have been highlighted by dominant growth stocks and lagging small cap stocks. Additionally, they have produced a welcomed mirror image of 2022 when both stocks and bonds fell sharply. 2023 has seen robust gains in stocks and marginal gains in bonds.
- Those dominant growth stocks have resulted in a 42.54% total return through August for the Nasdaq which is the best start on record with data dating back to 1999.
- An illustration from MSCI lays out the increasing stress happening in commercial real estate with distress and foreclosure counts both clearly on the rise.
- One of the most direct casualties of higher interest rates is existing home sales due to the significant jump higher in mortgage rates.
- A WSJ article highlighted a good sign on wage inflation where businesses are becoming more cautious with hiring and some real time measures of pay (ZipRecruiter) are showing reduced pay for job openings and even outright declines from the prior year.
- Select U.S. data points supporting risks of a second wave of inflation include above trend growth, neutral to supportive fiscal policy, commodity prices, tight labor markets, and recent concerning indications from regional Fed survey data.
- The impact of shelter on inflation data remains prominent. A new model from the San Francisco Fed to forecast OER/real estate prices, concluded U.S. shelter inflation may turn negative in 2024, exacting a meaningful deflationary force on CPI.

- The U.S. housing market is getting pulled in two different directions with the highest mortgage rates in 23 years freezing buyers and sellers and pushing home ownership beyond the reach of many Americans while market technicals remain supportive of new home construction.

Economic Release Highlights

- The Employment Report registered 187,000, above consensus estimates of 170,000 and near the high end of the forecast range of 40,000-190,000. The unemployment rate increased from 3.5% to 3.8% and labor market participation increased 0.2% to 62.8%.

- Headline PCE inflation registered 3.28% YoY alongside core readings of 0.20% MoM and 4.24% YoY. Personal Consumption increased from 0.63% to 0.79% MoM. Average Hourly Earnings grew 0.24% MoM and 4.29% YoY while Personal Income grew 0.20%, all in line with consensus and slightly lower versus the prior month's pace.

- The JOLT Survey reported a notable decline in job openings from the prior month 9.165mm reading to 8.827mm, well below consensus forecast of 9.559mm and the forecast range of 9.524mm - 9.570mm. The opening to unemployed ratio has fallen from 2.0 to 1.5 since January.

- August U.S. flash PMI (C, M, S) of 50.4, 47,0, 51.0 came in under both the spot consensus estimate and the forecast range on both manufacturing and services fronts.

- Retail Sales rose 0.7%, more than the consensus estimate of 0.4% and the forecast range of 0.2%-0.5%. Ex-Vehicles (1% vs 0.4%) and Ex-Vehicles & Gas (1% vs 0.4%) also handily beat consensus.

- Consumer Confidence in August came in well short of expectations (106.1a vs 116.5e) and well below the consensus estimate range of 113.0-119.3).

- The final UofM Consumer Sentiment index for August was revised downward 1.7pts to 69.5 and 1 year inflation expectations increased from 3.3% to 3.5%.

- NFIB Small Business Optimism Index registered 91.9, in line with consensus expectation for 91.5 and a slight improvement over the prior month reading of 91.0.

- Case Shiller Home Price Index grew 0.9% MoM but declined 1.2% for the year, both generally in line. The Housing Market Index registered 50, well below consensus forecast of 56 and the forecast range of 55-58.

- New Home Sales (714k) increased 4.4% MoM (+31% YoY). Pending Home Sales (0.9%a vs -0.4%e) were stronger than expected. Existing Homes Sales fell 2.2% MoM (-16.6% YoY) to a 4.07mm annual rate, under the consensus estimate of 4.15mm.

Outlook

Inflation has been declining, but we suspect the risk of disappointing data/second wave persistent inflation pressures (tight labor markets, rising energy prices) will present in the second half of 2023 pressuring rates and the FOMC to remain squarely in the higher for longer camp. Credit market dynamics and the pace of labor market cooling (wages) will be closely monitored from here forward as we formulate our views.

We are maintaining a neutral view toward risk assets in the short term but are more cautious when looking out over our forecast horizon of 12-24 months. We expect the start-stop conditions to continue favoring periodic tactical (0-6 months) asset allocation shifts anchored at a neutral to slight underweight equity allocation rather than a decided pro-growth or defensive investment posture. In other words, keep risk assets on a short leash.

We remain neutral on the growth/value style dimension, reflecting our view that we are nearing the end of an economic cycle and acknowledging the risks that persistently rising interest rates pose to growth stocks and the overall economy as we look forward. From a geography perspective, we are favoring quality U.S. markets over non-U.S. due to currency and relative growth dynamics. Recommended fixed income positioning is neutral from a duration perspective and underweight below investment grade fixed income and bank loan markets over our forecast horizon.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	34722	(2.01)	6.10	6.37	12.58	9.08
NASDAQ	14035	(2.05)	8.72	34.88	19.85	6.85
S&P 500	4508	(1.59)	8.28	18.73	15.94	10.52
Russell 1000 Growth		(0.90)	9.45	32.17	21.94	8.25
Russell 1000 Value		(2.70)	7.41	5.88	8.59	11.59
Russell 2000		(5.00)	9.00	8.96	4.65	8.12
Russell 3000		(1.93)	8.52	18.01	14.76	9.81
MSCI EAFE		(3.82)	3.85	11.35	18.55	6.58
MSCI Emg Mkts		(6.13)	3.66	4.86	1.69	(1.01)
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.72	0.09	0.24	0.33	0.86	0.57
High Yield	5.97	0.04	0.06	(0.09)	1.12	0.95
Municipal	2.05	0.08	0.14	0.18	0.41	0.21

Commodities	8/31/23	6/30/23	3/31/23	12/31/22
Oil (WTI)	86.74	70.66	75.68	80.16
Gold	1942.30	1912.30	1979.70	1813.80

Currencies	8/31/23	6/30/23	3/31/23	12/31/22
USD/Euro ($/€)	1.09	1.09	1.09	1.07
USD/GBP ($/£)	1.27	1.27	1.24	1.21
Yen/USD (¥/$)	145.68	144.47	132.75	131.81

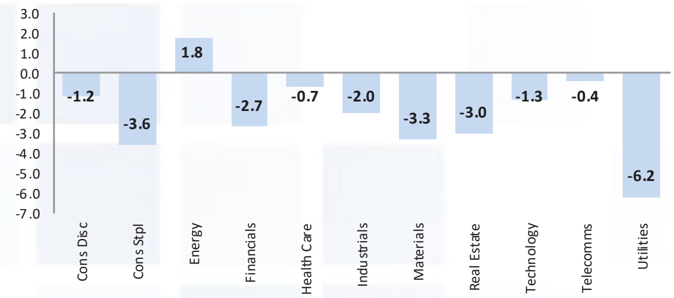
Treasury Rates	8/31/23	6/30/23	3/31/23	12/31/22
3 Month	5.56	5.43	4.85	4.42
2 Year	4.85	4.87	4.06	4.41
5 Year	4.23	4.13	3.60	3.99
10 Year	4.09	3.81	3.48	3.88
30 Year	4.20	3.85	3.67	3.97

Style Returns

MTD

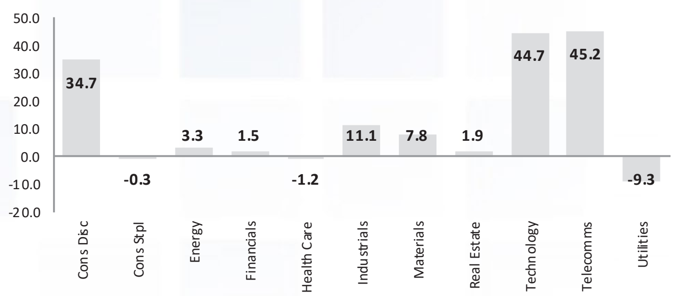
	V	B	G
L	-2.70	-1.75	-0.90
M	-3.54	-3.47	-3.30
S	-4.81	-5.00	-5.21

S&P 500 Sector Returns



YTD

	V	B	G
L	5.88	18.58	32.17
M	5.93	9.40	15.51
S	4.94	8.96	12.68



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