MONTHLY MARKET UPDATE

July 2023

OPAL WEALTH ADVISORS

July's global financial markets built on the rally in risk assets with a goldilocks soft landing narrative building around upside surprises in overall growth and downward trending inflation data. Key economic reports crossing the wires in July included a healthy but cooling labor market, continued contraction across the global manufacturing sector, robust service sector activity, decelerating inflation trends, and upside surprises in economic growth which have pushed recessions fears further out on the horizon. The U.S. economy grew by 2.4% in the second quarter and early forecasts for the third quarter for continued growth; however, clear signs of stress in creditworthiness across consumer (credit cards, autos) and corporate loans are materializing. The Fed moved past 'skipping' June, delivering a 25bps hike to take Fed funds rate to 5.5% in what might be one of the last rate hikes we'll see in this sixteen-month cycle. Second quarter earnings season hit full stride in July with an approximate 4% headline decline but marginal growth (+2%) when excluding the energy sector.

The S&P 500 rallied 3.1% in July bringing the YTD return to 20.65%, its tenth best year on record dating back to 1927. Of note in July was the rally broadening out beyond the concentrated top heavy FAANG stocks which had been largely responsible for 2023 gains to date. Developed international (+3.2%) and emerging international (+6.2%) enjoyed a nice rally in July as well but both remain well below the S&P 500 for the year.

Market interest rates shifted higher in July with the 10yr UST rising from approximately 3.8% to 4% on the back of resilient growth and persistent inflation dynamics while 2yr and 3mo yields remained relatively flat. Commodities rallied nearly 10% in July on the back of strong price gains in oil (+15%) and various industrial metals potentially complicating the disinflation trend currently in place.

Market Anecdotes

- Through July, a staggering 34 stocks in the Russell 1000 were up 200%+ YTD. Just in July, 29 stocks in the Russell 3000 gained over 50% displaying a further broadening of the rally we've seen since the debt ceiling suspension.
- July marked a 5-month winning streak for the S&P 500. In the last 37 instances dating back to 1928, the sixth month ended up being positive 29 times.
- J.P. Morgan's quarterly chart deck did a nice job illustrating historical equity market cycles, valuations, yields, and the earnings contributions of the top-heavy nature of the S&P 500. An illustration of the past decade of interest rates also makes clear the lofty levels we have today.
- The July ECB meeting delivered the expected 25bps hike taking the deposit rate to 3.75%, equivalent to the October 2000 record high, the refi rate to 4.25%, and marginal lending facility rate to 4.5%. The BOJ kept rates unchanged but surprised markets by changing its YCC program.
- Public equity valuations aren't alone in the lofty zone. Private equity (buyout) valuations look very stretched relative to historical ranges with year-end 2022 sporting purchase price multiples of 13x and debt multiples over 7x.
- An FT article highlighted positive trends in private debt with demand supported by the high costs of public issuance, fewer reporting obligations, loss of business/operational control, and less rigor surrounding related party transactions.
- Bloomberg noted home equity dry powder has increased 56% over the past three years; Black Knight estimates the magnitude at $28.7t ($9.3t accessible at 20%).
- Bianco Research is making a strong point that the CPI base effect from 2022 inflation readings suggests the July–December window will be much more challenging to maintain the same deflationary trends that we've seen in the first half.
- BCA Political Research estimates the government spending impact on 2024 GDP from the 2023 FRA and SCOTUS decision on student debt forgiveness to modify the fiscal drag from -0.12% to 0.49% in 2024.
- A healthy consumer thanks to a robust job market and well capitalized balance sheets (excess savings) have a significantly larger influence on U.S. GDP than government spending.

- A Stanford research paper on work from home trends estimated average commuter time savings of 72 minutes per day (2 weeks/yr) and a value to workers of approximately 8% of their salaries—suggesting employees would take a pay cut to maintain work from home privileges.

Economic Release Highlights

- July payrolls increased by a less than expected 187,000 (200,000 expected) and the unemployment rate fell from 3.6% to 3.5%. Average Hourly Earnings growth remained at 4.4% (0.4% MoM), against consensus calling for a decline.
- Headline and core CPI YoY readings of 3.2% and 4.7%, respectively came in slightly under consensus estimates. Month-over-month readings of 0.2% for both met consensus expectations.
- PCE inflation data showed continued deceleration with headline readings of 3.0% YoY / 0.2% MoM alongside core readings of 4.1% YoY / 0.2% MoM. Personal Consumption Expenditures of 0.5% ticked higher and slightly exceeded estimates while Personal Income of 0.3% fell slightly under the spot forecast.
- The JOLT Survey revealed 9.582M job openings, slightly under consensus forecast of 9.650M but within the forecast range.
- Second quarter U.S. GDP came in well above the spot consensus forecast (2.4% vs 1.5%) and more in line with the Atlanta Fed GDPNow modeled forecast. Personal Consumption Expenditures of 1.6% came in slightly ahead of consensus but within the 1.1%-4.1% range.
- Eurozone 2Q GDP registered 0.3% q/q, returning to positive growth following a 0% Q1 and -0.1% Q2. Headline inflation eased from 5.5% to 5.3%.
- July U.S. flash PMI (C,M,S) registered 52.0, 49.0, 52.4 with manufacturing exceeding the forecast of 46.0 and services falling short of consensus forecast of 54.0.
- July's flash non-U.S. PMIs (C,M,S) for the Eurozone (48.9,42.7,51.1) and UK (50.7,45.0,51.5) revealed some downside surprises.
- Retail Sales came in below expectations (0.2% vs 0.5%) but ex-vehicles (0.2% vs 0.3%) and ex-vehicles & gas (0.3% vs 0.3%) readings were both more in line with consensus.
- Consumer Confidence reading for July registered 117.0, well above consensus estimate of 111.8 and the forecast range of 108.0-116.0. July's final revision to UofM Consumer Sentiment took it down from 72.6 to 71.6.
- Consumer Sentiment improved by a larger than expected margin, registering 72.6 versus consensus estimate of 65.5.
- The NFIB Small Business Optimism Index improved to 91 from an 89.4 reading, above consensus forecast of 89.8 and the forecast range of 89.0-90.3.
- Case-Shiller Home Price Index posted a MoM gain of 1% versus consensus estimate of 0.8% and a YoY decline of 1.7% versus a consensus call for a 2.5% decline. The Housing Market Index came in right at the consensus forecast of 56 after rising 5 points to 55 in June.
- New (697k) and Pending (0.3%) Home Sales were both within their respective forecast ranges. Existing Home Sales cooled slightly to 4.16M.

Outlook

While inflation will continue to decline, we suspect the pace of declines will underwhelm the FOMC toward the latter parts of 2023 resulting in persistent hawkish policy while the full weight of 5.5% increase in short rates continues to work its way through the economy. 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 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 remain neutral U.S. to non-U.S. Recommended fixed income positioning has shifted from a slightly short duration posture to a neutral duration posture over our forecast horizon.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	35560	3.44	4.85	8.55	10.62	12.65
NASDAQ	14346	4.08	17.58	37.71	16.82	10.96
S&P 500	4589	3.21	10.51	20.65	13.02	13.72
Russell 1000 Growth		3.37	15.47	33.36	17.31	12.19
Russell 1000 Value		3.52	6.14	8.82	8.28	14.14
Russell 2000		6.12	13.68	14.70	7.91	12.01
Russell 3000		3.58	11.09	20.33	12.65	13.13
MSCI EAFE		3.25	3.55	15.77	17.42	9.79
MSCI Emg Mkts		6.29	8.61	11.71	8.83	1.85
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.64	0.06	0.25	0.25	0.87	0.45
High Yield	5.93	0.01	0.20	(0.13)	1.37	0.90
Municipal	1.98	0.05	0.15	0.10	0.38	0.14

Commodities	7/31/23	5/31/23	2/28/23	11/30/22
Oil (WTI)	81.94	68.11	76.88	80.48
Gold	1970.70	1964.40	1824.60	1753.50
Currencies	**7/31/23**	**5/31/23**	**2/28/23**	**11/30/22**
USD/Euro ($/€)	1.10	1.07	1.06	1.04
USD/GBP ($/£)	1.29	1.24	1.21	1.20
Yen/USD (¥/$)	142.18	139.78	136.09	139.31
Treasury Rates	**7/31/23**	**5/31/23**	**2/28/23**	**11/30/22**
3 Month	5.55	5.52	4.88	4.37
2 Year	4.88	4.40	4.81	4.38
5 Year	4.18	3.74	4.18	3.82
10 Year	3.97	3.64	3.92	3.68
30 Year	4.02	3.85	3.93	3.80

Style Returns

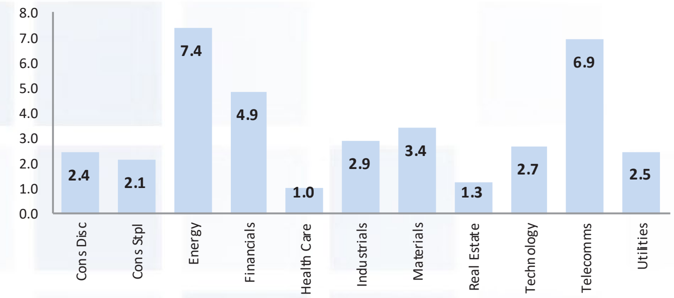
MTD

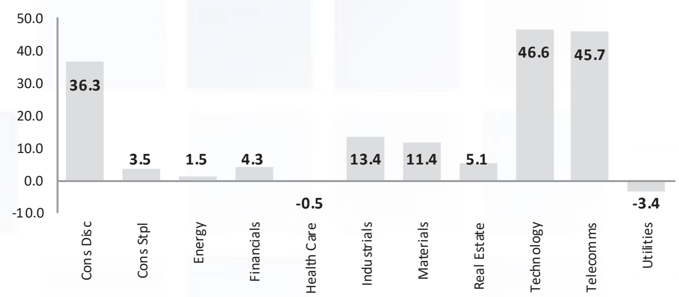
	V	B	G
L	3.52	3.44	3.37
M	4.35	3.97	3.03
S	7.55	6.12	4.68

YTD

	V	B	G
L	8.82	20.69	33.36
M	9.81	13.33	19.45
S	10.24	14.70	18.86

S&P 500 Sector Returns





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