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Market Update: May 2023

Global stocks declined by just over 1% in May. Foreign stocks saw declines of over 3% for the month, while domestic equities were essentially flat. Bond investors also saw declines of about one percent during May. The yield on the benchmark U.S. 10-year Treasury note is now at 3.64%, up about 0.2% for the month.

> **If you can get some clarity on a recession, its timing, and what the Fed is going to do … that will allow the market to push higher. Without those things, we are kind of stuck.**
>
> **Michael Arone, State Street Global Advisors – WSJ 5/31/23**

For the year, stocks are still holding on to solid gains, although most of the performance can be attributed to a small group of large technology companies. For example, the technology heavy Nasdaq Composite Index is up over 24% so far this year, while the Dow Jones Industrial Average is basically unchanged. Also, while the S&P 500 is up over 9% year-to-date, the “equal weighted” version of the index has hardly budged at all.

> **This year’s stock market is split in two. One consists of a few big technology companies, and it’s booming. The other is everything else, and it’s been stinking up the joint.**
>
> **Jason Zweig – WSJ 5/19/23**

The Federal Reserve increased its federal-funds rate by an additional quarter percentage point in May. It was the 10th consecutive increase, lifting the rate range to between 5% and 5.25% for the benchmark.

The Commerce Department reported consumer spending rose by 0.8% in April, after 0.1% increases in both February and March. The primary driver of U.S. growth was fueled by low unemployment and solid wage growth. Overall, consumers have proven to be quite resilient in the face of ongoing inflationary headwinds.

> **We are not in an economy that's retrenching.**
>
> **Gregory Daco, EY-Parthenon – WSJ 5/26/23**

Employers reported a seasonally adjusted 10.1 million job openings in April. This was higher than the 9.7 million in March, and reversed three consecutive months of declines. Openings remain decidedly higher than the 5.7 million people looking for jobs in April.

> **Demand is still strong and the labor market is very active. Everyone is still looking to hire, it seems, whether they're small businesses or large businesses. We're not really seeing any pockets of weakness.**
>
> **Dawn Fay, Robert Half – WSJ 5/31/23**

The 13 largest banks in the U.S. make up 60% of all assets in the sector. In fact, JP Morgan Chase and Bank of America combined make up 26% of the sector's assets. It's the other 40% that will be facing higher borrowing costs and intense scrutiny from depositors.

> **To be sure, people have been predicting a recession for months, and it hasn't come. But warning signs are flashing in the typically more conservative debt market, which moves money from banks and other lenders to businesses and families … Recessions over the past 30 years have closely tracked the willingness of banks to lend out the cash they collect from depositors.**
>
> **Matt Wirz – WSJ 5/31/23**

The recent problems in the banking sector are putting additional constraints on lending conditions. Many banks are carrying material declines in the value of their bond holdings. To make matters worse, customers can more freely shift their deposits to other entities. Ten years ago, less than 40% of people used mobile and online banking … now most use cellphones to easily shift their deposits.

> **The first thing you learn is that banking crises normally happen in a bad economy … we have what I would describe as a banking crisis in a good economy.**

Torsten Slok, Apollo Global Management – Barron's 5/25/23

Germany's gross domestic product declined by 0.3% during the three months ending in March. The eurozone's largest economy has now shrunk for two consecutive quarters, meeting the technical definition of a recession. A decline of 1.2% in household consumption was the main reason for the contraction … no doubt a result of households paying 21% more for their food purchases than a year earlier.

> **Should the estimates for growth in other eurozone members be unchanged, the new measure of GDP for Germany suggests the currency area's economy contracted slightly in the first quarter.**

Paul Hannon – WSJ 5/25/23

India's economy grew by 6.1% during its fiscal fourth quarter, capping off a full fiscal year growth rate of 7.2% compared to the previous year. While economists expect high growth rates to continue, job creation remains a significant hurdle. The unemployment rate jumped to 8.1% in April, the fourth consecutive month of rising jobless rates.

> **The main challenge for the world's most populous nation is creating jobs for the millions entering the workforce.**

Agarwal/Li – WSJ 5/31/23

China's post-Covid recovery has substantially softened over the past couple of months. While export demand has declined, the primary concerns are the housing sector, weak income growth, and youth unemployment. The MSCI China index has lost about 20% of its value since January.

> **I think what a lot of investors got wrong is actually understanding the scarring effects of the pandemic. At the moment, fear seems to be dominating the market sentiment.**

Eric Khaw, Nikko Asset Management – WSJ 5/31/23

The unemployment rate for China's 16-24 age bracket is currently in excess of 20 percent. According to Pantheon Economics, the jobless rate for college graduates is around 40% higher than the overall youth population. Economists suggest the problem is that China is not creating enough high-wage, high-skilled jobs.

> **Finding jobs for all those ambitious college grads – who would normally be in the market for a home sometime soon – could prove more challenging. If China can't square that circle, then it could face a double whammy in the coming years as the well-educated increasingly head abroad for greener pastures, putting further pressure on the beleaguered housing market and the economy more broadly.**

Nathaniel Taplin – WSJ 5/31/23

According to Seafarer Capital Partners, China's debt grew by $37 trillion over the past ten years. By comparison, the U.S. added $25 trillion to its debt over the same period. As a share of GDP, China's debt hit 295% last September … that compares with 257% for the U.S. Local governments in China are struggling under huge debt levels, while households hoard their cash.

China's growth has historically been fueled by rising exports and huge investments in infrastructure. Looking ahead, China will eventually have to transition to a more consumer-led growth model. For example, household consumption is 68% of the U.S. economy … while it currently only accounts for 38% of China's GDP.

> **China's era of rapid growth is over. Its recovery from zero-Covid is stalling. And now the country is facing deep, structural problems in its economy. An aging population and shrinking workforce compound its difficulties.**

Yifan Xie/Douglas – WSJ 5/30/23

We received some good news to start the month of June:

- On Thursday June 1st, the Senate passed legislation that suspends the debt ceiling and averts what could have been an unprecedented U.S. default.
- The next day, the Labor Department reported a seasonally adjusted 339,000 jobs were added to the U.S. economy in May. The prior two months were also revised up by an additional 100,000 jobs.

Economists had forecasted 186,500 job additions, so the 339,000 figure absolutely crushed expectations. The labor report also saw unemployment rise to 3.7% from April's 3.4%, while average hourly earnings grew by 4.3% in May over the prior year. The wage growth was similar to the gains recorded in March and April.

The jobs report had something for everyone, as stocks soared because of rising unemployment and flat wage growth. It was heralded as a "goldilocks" moment for the markets … meaning that the report suggested an economy that was not too hot and not too cold.

> **Wait, What? The May jobs report came in way hotter than expected … but traders shrugged it off and sent the broader markets soaring.**

Connor Smith – Barron's 6/2/23

In spite of predictions of pending doom, the U.S. economy continues to show surprising resilience in the face of rising rates and ongoing inflationary pressures. However, with China's economy starting to weaken, and Germany in recession, the outlook for global growth remains modest at best.

According to the World Bank, excessive government debt levels are undercutting global economic growth. If rising debt levels are not addressed, it believes the global economy is facing a "dangerously" slow growth rate of 2% or lower.

> **The world is digesting the huge buildup of government debt relative to gross domestic product … Excessive government debt raises doubts about whether the private economy can produce enough output and profit to carry the burden.**
>
> **David Malpass, World Bank President – WSJ 5/24/23**

Before the pandemic, our economy had inflation rates that were decidedly below the Fed's 2% target. Deflation, not inflation, was the primary concern, and the major deflationary influences were considered to be demographics and debt levels.

Growing an economy with high debt levels, is the equivalent of trying to run a marathon with a refrigerator tied to your back. We may have sidestepped a U.S. default in the 11th hour, but we did nothing to address our reliance on debt to support current consumption.

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