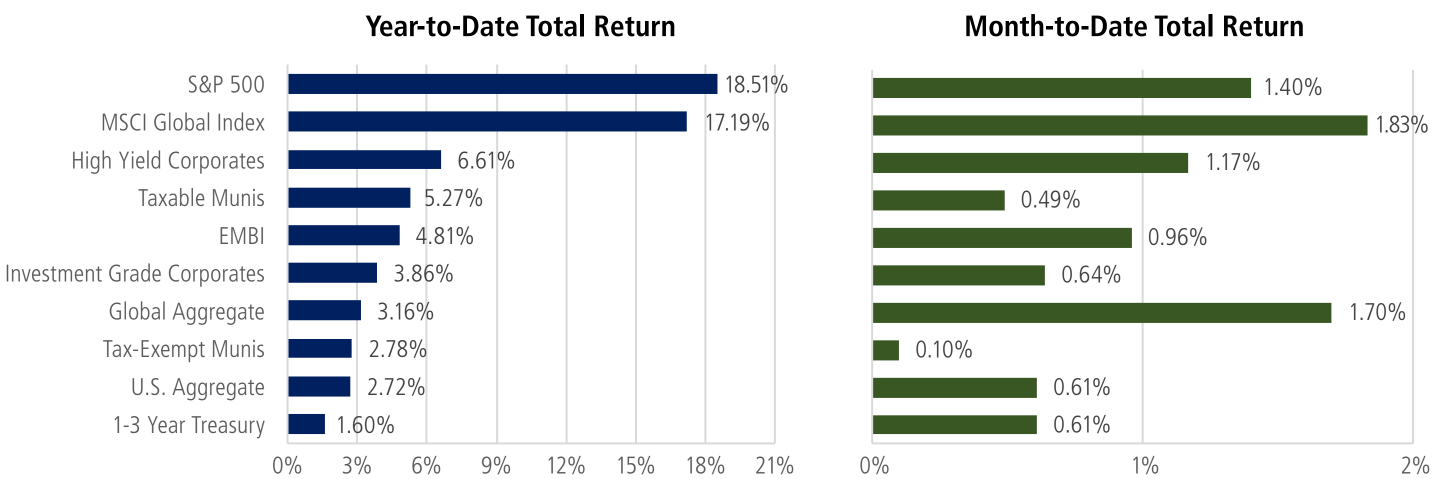
Week Ending: **July 14, 2023**

Don’t Be So Cavalier

Economic Overview:

For 27 consecutive months, the Federal Reserve and investors watched as the core Consumer Price Index (ex., food and energy) increased by a 0.5% monthly rate on average, consistent with annual inflation of 6.2%—well above the Fed's 2% target. That is, until June 2023, when core CPI slowed to a monthly increase of just 0.158%—the softest reading since the current bout of Covid-era inflation began in March 2021. Finally, after more than 500 basis points of rate hikes, can the Federal Reserve breathe a sigh of relief? We hope so, but investors should tread cautiously. Our preferred method for gauging underlying inflation is the Cleveland Fed's Median CPI, which tracks the median price change, excluding high and low outliers. Doing so provides a less volatile inflation guide over the longer run. Median CPI rose 0.4% in June—slower than the 0.6% monthly readings registered for much of the last year, but a less rosy story than traditional core CPI suggests.

Total Returns by Asset Class



Source: Bloomberg

Highlights of the Week:

High Yield: High yield reacted positively to lower-than-expected inflation this week as spreads compressed and rates rallied on hopes for a soft landing. A scenario where inflation continues to decline, and the economy does not enter a recession would likely result in a benign default environment and extend the credit cycle.

Corporates: Earnings season kicked off in earnest Friday as Citi, J.P. Morgan, and Wells Fargo all reported before the bell. Expectations were tempered going into the season, but all three came out on top, with J.P. Morgan shining the brightest, aided by its rescue of First Republic Bank in early May. For the bellwether, revenue rose 34% year-over-year while Q2 profit jumped 67%. Wells Fargo saw a 20% increase in revenue and a 57% increase in profit, while Citi saw revenue fall by 1% and profit by 36%.

Municipals: Ten years after its $18 billion bankruptcy in July 2013, the nation's largest municipal bankruptcy at the time, Detroit came to market Thursday with a $100 million bond that drew exceptionally strong demand. The $20 million piece was issued with a 6% coupon maturing in 2039 and was oversubscribed 49 times.

Equities: The U.S. equity market extended its year-to-date gains after posting five consecutive days of positive returns. The rally has broadened, with all sectors posting gains for the week. Growth-oriented stocks continued to lead markets higher, with communications, technology, and consumer discretionary as the best performers, while health care, energy, and consumer staples were the laggards.