

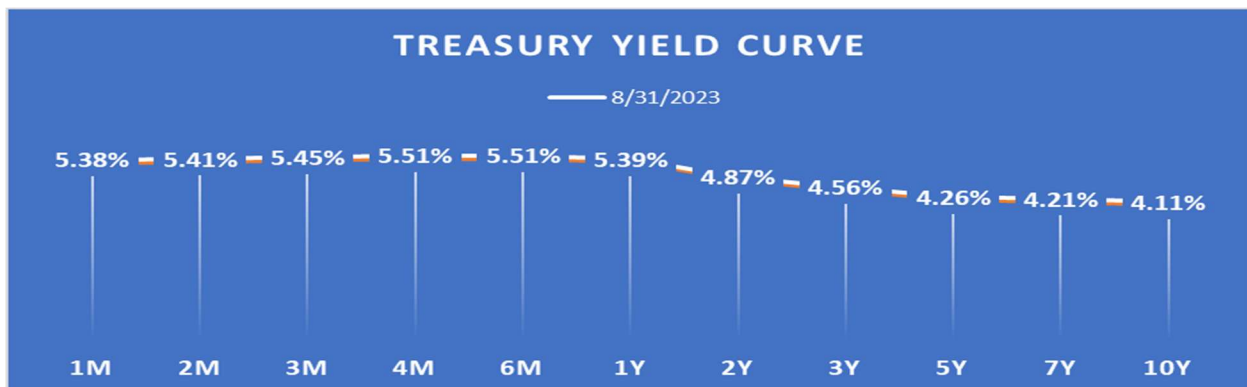
Economic Commentary – August 2023

Widely accepted and recognized as the month of the summer slowdown on Wall Street encompassing low trading volumes and a dearth of headline news, August held true to this presumption. As has been the case all year, the labor market flexed its resiliency with unemployment at a 51-year low, consumer spending remained robust, and economic growth produced an output of 2.0% plus. It should be duly noted that consumer spending durability has been bolstered by the potency of real wage gains. Over the course of the past few months, for the first time period in quite a while, real wages (nominal wages less inflation) are positive for a large swath of the American workforce. While persistent price pressures are unfavorable for the consumer, harnessing “real” wages to combat these price pressures undoubtedly aids to blunt the burden.

Although year-over-year inflation readings ticked marginally higher, primarily due to base effects from 2022 baseline measures, the more critical and scrutinized month-over-month readings show that disinflationary forces are undeniably at work. As was stated in last month’s commentary, the consensus amongst most economists is for the U.S. economy to achieve a soft landing, and there weren’t many deviations from that popularly held opinion. Despite many lagging and leading economic indicators corroborating this expectation, there are two potential headwinds to directly rebut this supposition; 1. Credit card and auto loan delinquencies are on the rise, and 2. The upcoming resumption of federal student loan payments may have an adverse effect on consumer spending.

At the Federal Reserve’s annual economic policy symposium in Jackson Hole, Wyoming, which was held from August 24-26, Chairman Powell and other Fed policymakers upheld their hawkish rhetoric and narrative. Acknowledging that rates are assuredly in what the Fed would consider restrictive territory, it was reiterated that the focal point should no longer be the remaining number or magnitude of additional rate increases, but rather the duration of rates being held at these current levels until inflation is on a sustainable path down to the desired 2% objective. Expectations are for the FOMC not to institute a rate hike at its upcoming September policy meeting, and to utilize this pause to fixate on data dependency while monitoring economic developments.

Following July’s trajectory, the U.S. Treasury yield curve continued to bear steepen, with interest rates rising across the yield curve at a larger magnitude on the longer end than the shorter end, as investors further digested the Fed’s higher-for-longer stance. The 2-year/10-year spread abridged its inversion to 76 basis points, and the 3-month/10-year pair tapered its inversion to 134 basis points.



U.S. Treasury Yield Curve Source: Bloomberg

August 2023 Macroeconomic Highlights

Inflation, Expectations, and Consumer Sentiment¹:

CPI: 3.2% year-over-year (0.2% month-over-month); **Core CPI:** 4.7% year-over-year (0.2% month-over-month)
PCE: 3.3% year-over-year (0.2% month-over-month); **Core PCE:** 4.2% year-over-year (0.2% month-over-month)
PPI: 0.8% year-over-year (0.3% month-over-month); **Core PPI:** 2.4% year-over-year (0.3% month-over-month)
Core PPI less trade services: 2.7% year-over-year (0.2% month-over-month)
Inflation Expectations: 1-year horizon: 3.5%, 3-year horizon: 2.9%, and 5-year horizon: 2.9%
Consumer Sentiment: 69.5 vs. 71.6 in July; **Current Conditions:** 75.7 vs. 76.6 in July
Consumer Expectations: 65.5 vs. 68.3 in July

Labor Market²: The U.S. economy added 187,000 nonfarm payrolls in July, modestly shy of the 200,000 expected by economists surveyed by Bloomberg. Notable job gains occurred in health care (+63,000), social assistance (+24,000), financial activities (+19,000), construction (+19,000), and wholesale trade (+18,000).

- U-3 **official** unemployment rate: 3.5% vs. 3.6% expectation: -0.1% from June 2023.
- U-6 unemployment rate (marginalized, part-time workers for economic reasons): 6.7%.
- Labor force participation rate: 62.6% (unchanged), Employment-to-population ratio: 60.4% (+0.1%).
- Average hourly earnings for private nonfarm payrolls rose 14 cents to \$33.74 (+0.4% month-over-month, +4.4% year-over-year).
- Employment revisions: June 2023 clipped -24,000 to 185,000; May 2023 pared -25,000 to 281,000.

Gross Domestic Product (GDP)³: According to the *second* estimate, real GDP increased at annual rate of 2.1% in the second quarter of 2023 vs. 2.0% in the first quarter of 2023.

- *Second Quarter 2023:* GDP Price Index: +2.0%; PCE Price Index: +2.5%; Core PCE Price Index +3.7%.
- Real disposable personal income: +3.3% vs. +8.5% in the first quarter of 2023.
- Personal savings rate as a percentage of disposable income: 4.5% vs. 4.3% in the first quarter of 2023.
- Average of Real GDP and Real GDI: +1.3% vs. +0.1% in the first quarter of 2023.

Housing Market⁴: Existing-home sales slid 2.2% (month-over-month) from June to a seasonally-adjusted annual rate of 4.07 million in July. Month-over-month sales in the Northeast, Midwest, and the South retreated 5.9%, 3.0%, and 2.6%, respectively, while sales in the West increased 2.7%.

- Year-over-year sales cascaded 16.6%, down from 4.88 million in July 2022.
- Total housing inventory registered 1.11 million units, +3.7% from June, but -14.6% from one year ago (1.30 million units). Unsold inventory sits at 3.3-month supply at the current sales pace.
- The median existing-home price for all housing types was \$406,700, +1.9% from July 2022, as prices rose in the Northeast, Midwest, and South, but were unchanged in the West.
- Average commitment rate for a 30-year, conventional, fixed-rate mortgage: 7.18%.
- New Home Sales: 714,000 (+4.4% month-over-month).

¹Source: Federal Reserve Bank of New York – Survey on Consumer Expectations, and University of Michigan Consumer Sentiment Index

²Source: Bureau of Labor Statistics

³Source: Bureau of Economic Analysis (BEA)

⁴Source: National Association of Realtors (NAR), U.S. Census Bureau, and The Department of Housing and Urban Development

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