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Monthly Economic Recap

Sector Benchmark Performance:

Sector	Benchmark	3/1/23	3/24/23	% Change	YTD % Change
S&P 500	SPY	395.41	395.75	0.09%	2.96%
Dow Jones Industrial Average	.DJI	32,656.37	32,237.53	-1.28%	-2.75%
Nasdaq-100	NDX	12,026.72	12,767.05	6.16%	15.66%
FI/FX	BND	$71.68	$74.17	3.47%	2.37%
Commodities	DBC	$23.89	$22.96	-3.89%	-5.75%
Real Estate	RWO	$42.38	$39.19	-7.53%	-5.11%
Emerging Markets	VWO	$40.31	$39.71	-1.49%	0.58%
Consumer Discretionary	XLY	$145.02	$141.58	-2.37%	8.97%
Consumer Staples	KXI	$58.93	$60.39	2.48%	1.09%
Energy	IXC	$38.21	$35.59	-6.86%	-8.27%
Financials	XLF	$35.56	$30.99	-12.85%	-10.04%
Healthcare	IXJ	$80.33	$81.58	1.56%	-4.30%
Industrials	XLI	$100.88	$96.91	-3.94%	-1.89%
Materials	XLB	$82.01	$76.81	-6.34%	-1.29%
Information Technology	IXN	$49.34	$52.68	6.77%	16.24%
Communication Services	IXP	$59.79	$62.94	5.27%	13.84%
Utilities	XLU	$64.66	$65.69	1.59%	-7.09%

Key Market Highlights:

- Growth:
- 4Q22 real GDP showed the economy grew by a 2.7% annualized rate and 0.9% for the full year, even with the economy contracting for two consecutive quarters in the first half. More than half of the GDP gain came from an increase in inventory accumulation (a trend that will inevitably reverse). Real consumer spending softened and residential investment fell much further. Source
- Jobs: In February, nonfarm payroll employment rose by 311K, well above consensus estimates of 223K, however, gains for the prior two months were revised down by 34K and the unemployment rate rose above consensus to 3.6%. Average hourly earnings were also below consensus, rising by 0.2% m/m and 4.6% y/y. My expectation is that these negative trends will continue especially after this month's banking saga increasing concerns about the overall economy. Source
- Inflation: The February CPI report saw headline CPI rise by 0.4% m/m and 6.0% y/y, respectively, marking an eighth consecutive monthly decline for the year-over-year measure, while core CPI rose by 0.5% m/m and 5.5% y/y, respectively. Housing inflation is still strong but has not been as reflected in rents. While relatively slow, inflation is gradually falling, and wage growth continues to slow. Albeit slow, this is seen as a positive for inflation/rates. Source
- Rates: At its March meeting, the FOMC hiked rates by 0.25% to a range of 4.75%-5.00%. Their tone inferred that this could be the final rate hike, or at least that future hikes will be on an as needed basis. Expectations on rate cuts are relatively contested/uncertain. The median rate expectation for year-end was unchanged at 5.1%. Source

Key Trends:

- Falling inflation, albeit much slower than policy makers would like.
- Continued slowing of wage growth.
- Fed may slow/stop rate hikes after the last 25 bps to 4.75%.
- Housing inflation remains sticky.
- Global central banks look set to keep financial conditions restrictive in 2023 even as growth slows.
- Bond returns have become more robust than equity returns.

Key Risks:

- **Banking crisis**
  - As discussed in class, the regional banking crisis could spread further into the economy. Major banks have had their balance sheets scrutinized with particular emphasis on uninsured deposits and percent of held to maturity securities.
  - 2008 showed us how quick these events can unfold, so look for future commentary from the Fed on a potential broad government insurance of all bank deposits (above 250k that is currently insured.
    - This could go a long way in ensuring faith in our banking system.
- **Weak consumer**
  - Markets may remain depressed as wage growth slows amid somewhat persistent inflation.
  - Looking to future jobs reports, it will be incredibly important to see if another hike in rates and a looming banking crisis will cause employment numbers to fall sharply.
    - This will be a huge sign of what is to come for all equities (not just banks).

- **Russia-China Alliance**
  - One important thing for the fund to investigate in more depth is the growing ties between China and Russia and how this block could present an issue for us.
  - China brokered a peace deal between Saudi Arabia and Iran (two historic enemies, Saudi Arabia as Sunni and Iran as Shiites.
- **Geopolitics**
  - Heightened geopolitical tensions with Russia could result in continued energy shortages, low consumer confidence and dampened growth.
  - Ukraine war creates worst Global Food Crisis since 2008, IMF says. Rising costs caused by war and other disruptions imperil 345 million people. Source
- **Other highlights around the world**
  - Eurozone inflation is 5.6% though consumer prices rose a record 8.6% in February. Source
  - Russia-Ukraine remains persistent (could China broker piece here too???)
  - Signs that wages in Japan may finally be on the rise. Source
    - Companies in Japan are beginning to raise wages, with major ones like Nintendo, Canon, Sony, and Fast Retailing stating they will raise wages.
    - BoJ still keeps their monetary policy loose, as they want more persistent inflation, but could this finally cause a change in their monetary policy.

Conversation/Debate:

- **Is the U.S. position as world reserve currency at risk?**
  - Peace deal between Iran and Saudi Arabia brokered by China, not U.S.
  - This came after the Saudis left a coalition with U.S. and Yemen that was supposed to broker peace in Yemen (where Iran and Saudi Arabia have been fighting an effective proxy war for years).
  - China consumes 26% of Saudi oil exports increasing the likelihood of a "petroyuan"
    - Albeit unlikely because Japan/South Korea/Taiwan combined consume 33% (all allied with the U.S.), it is still worthy of considering as the India/China block (2.7 bn ppl combined) grows more influential.
    - Similarly, the BRICS (Brazil, Russia, India, China, South Africa) alliance shows signs of strengthening and growing (see Saudi, Iran deal and as many as 10 other nations have expressed interest in joining). Source
    - Fed increasing the use of swap lines (change from weekly to daily) is largely seen as an attempt by the Fed to reinforce the petrodollar and the use of the dollar as the world's reserve currency.
    - Oil markets are important for the reserve currency, but it is still important to note that there are other important reasons the U.S. dollar is the world reserve currency (stability of treasuries).
      - Nevertheless, China holds 5-7% of U.S. debt (an important component if they were looking to destabilize the dollar by flooding the market with treasuries).