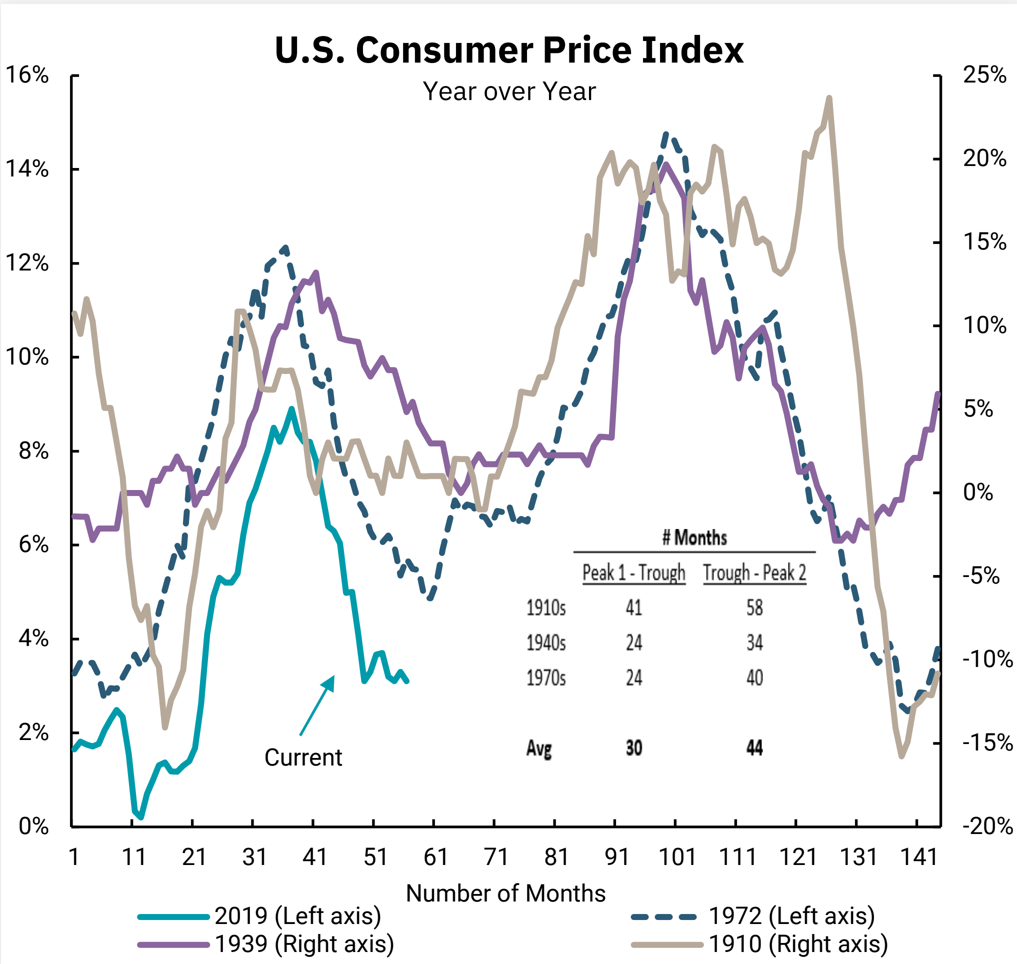
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Feb. 16, 2024)



Source: Strategas.

The Federal Reserve has a tough job. It is extraordinarily hard to accurately forecast the direction of the incredibly complex U.S. economy during "normal" times. It is even harder now as the economy unwinds from the massive monetary and fiscal policy response to the global pandemic. As the U.S. shut down its economy in response to the outbreak of COVID-19, the Fed quickly lowered rates to zero, supported parts of the capital markets to maintain the flow of credit and directly invested in markets as it quickly grew its balance sheet. It was a response similar, but of even greater magnitude, to that of the Financial Crisis in 2008-2009. However, unlike their lack of action during the Financial Crisis, Congress got very active in responding to the pandemic and began a series of fiscal policy supports, which eventually totaled between five and six trillion dollars.

As the economy re-opened, we saw a spike in inflation as demand began to exceed the output capacity of an economy still hobbled by pandemic policies. In response, the Fed raised interest rates and started shrinking the size of its balance sheet. These actions led many economists, us included, to anticipate a weaker economy with the risk of higher unemployment. However, the federal government did not pull back on spending. While we have not had additional fiscal stimulus "plans" since early in President Biden's term, the federal budget deficit has widened over the last couple of years to some $1.7 trillion in the 2023 fiscal year. According to the Congressional Budget Office (CBO), the forecast going forward is for continued trillion-dollar-plus deficits. Meanwhile, the economy continues to grow, and unemployment remains below 4%.

Despite the ongoing fiscal spending, we have seen inflation decline rapidly over the last 12 months—enough so, we are now expecting the Fed's next move will be to lower rates. Some economists, and many politicians, are even asking why they haven't already begun to lower rates. After all, high rates are painful for borrowers—both personal and business. Meanwhile, the current Federal Funds rate target range is well above recent readings on inflation—from the Consumer Price Index (CPI) to the Producer Price Index (PPI) to the Fed's favored inflation gauge, the Personal Consumption Expenditures Price Index (PCE). Those calling for lower rates are, rightfully, pointing out that a stable Fed means real rates are going higher, which could increase the chances of slowing the economy too much over the next few months. So why is the Fed hesitating?

This week's chart is a long-term look at previous bouts of inflation along with the progress of our current inflation episode. History shows inflation tends to come in waves—flaring and then slowing as markets adjust but then reigniting and moving to levels above the initial peak. This wave of inflation topped out at just over 9%, and the Fed would like to avoid a secondary wave of inflation if possible. Studies of past inflation episodes have concluded that lowering rates too soon contributed to a second wave beginning, causing the Fed to raise rates even higher to slow the more stubborn second round of inflation. And so, while the current Fed's patience may seem unnecessary from a short-term perspective, we should note that the right side of the chart covers a much longer period than what we have been through so far.

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BOK FINANCIAL

Commentary (Feb. 16, 2024)

Domestic Equities

- U.S. stocks were slightly positive for the week as persistent inflation overshadowed strong earnings reports.
- Monthly inflation reports came in hotter-than-expected, and retail sales were weaker-than-expected. Consumers account for roughly two-thirds of economic activity, so a slowdown in their spending could lead to slow growth in 2024. Additionally, rising prices are weighing on the outlook for interest rate cuts later this year.
- In earnings news, Coinbase reported its first quarterly profit in years thanks to surging bitcoin prices. Chip equipment maker Applied Materials stock jumped on better-than-expected revenue.
- Nvidia, the S&P 500's best-performing stock for the second year in a row, reports earnings next week. Analysts have high expectations of over $4 per share. The company reported just $1 per share one year ago.

Bonds

- U.S. Treasury yields moved higher on hotter-than-expected inflation data, with both CPI and PPI beating estimates for January, rising 0.3% MoM. The two- to 30-year part of the curve also bear-steepened with shorter-term rates moving up faster than longer-term rates.
- U.S. Inflation Protected Securities (TIPS) outperformed nominal U.S. Treasuries, with breakevens across the curve making new highs on rising inflation expectations. The move higher was most pronounced at the front end of the curve, with the one-year breakeven inflation rate closing the week over of 3.5%.
- Credit continued to outperform U.S. Treasuries, with both investment-grade and high-yield spreads making new lows during the week.
- U.S. dollar-hedged foreign bonds outperformed domestic bonds on weaker economic data across foreign developed markets.

International Equities

- Foreign stocks moved higher as the surprisingly strong January U.S. CPI report is forcing investors to consider that major central banks won't end up moving in lockstep this year in cutting interest rates.
- Foreign developed markets advanced for the fourth consecutive week as multiple markets delivered positive returns. The U.K. received mixed economic news as the country's GDP shrank by 0.3% during the fourth quarter of 2023, the second consecutive quarterly decline. On the other hand, the U.K.'s January retail sales rebounded by 3.4%.
- Emerging markets rose for the week, led by strength from stocks in the technology and consumer discretionary sectors. MSCI is removing 66 Chinese companies from its EM index. China's index weight is at its lowest weight in nearly eight years. India's weight has almost doubled since the end of 2020, becoming the index's second-largest country allocation.

Economics

- The Bureau of Labor Statistics' (BLS) Consumer Price Index (CPI-U) increased 0.3% in January and has increased for three consecutive months, with most of the increase in January due to a rise in shelter prices. Over the prior 12 months, CPI-U increased 3.1%. Core CPI (excluding food and energy) increased 0.4% month-over-month and 3.9% over the prior 12 months.
- The BLS also reported the Producer Price Index (PPI) for final demand increased 0.3% in January. Most of the monthly increase was due to services, which rose 0.6%, while goods fell 0.2%.
- The Census Bureau reported that monthly retail sales declined by $5.8 billion month over month in January, totaling $700 billion, the largest monthly decline since March 2023. The decline was broad-based, as most subcategories declined in the month.
- Federal Open Market Committee minutes will be released on Wednesday.

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Weekly Market Update

For Week Ending February 16, 2024

Markets

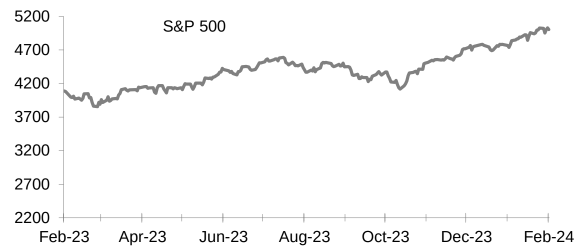
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	38,627.99	0.0%	2.8%	17.1%
S&P 500 Index	5,005.57	-0.3%	5.1%	24.4%
NASDAQ Composite	15,775.65	-1.3%	5.2%	34.1%
S&P 400 Midcap Index	2,828.30	0.7%	1.8%	7.7%
S&P 600 Smallcap Index	1,304.98	1.3%	-0.8%	3.8%
MSCI EAFE	7,864.75	1.5%	1.0%	10.7%
MSCI Emerging Markets	530.34	2.1%	-0.7%	3.1%
Bloomberg US Agg	2,118.48	-0.6%	-2.0%	2.5%
Bloomberg Municipal 5 Yr	486.46	-0.1%	-0.5%	3.1%
Bloomberg US Corporate	3,159.81	-0.5%	-1.9%	5.1%
Bloomberg Glb Agg ex US Hdg	560.69	0.1%	-0.7%	6.2%
Bloomberg High Yield	2,476.17	-0.3%	-0.2%	10.6%
MSCI US REIT Index	2,082.11	0.3%	-3.1%	-0.4%
Bloomberg Commodity Index	222.53	-0.6%	-1.7%	-5.6%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	5.50%	4.75%
3-Month Treasury	5.37%	5.37%	5.33%	4.78%
1-Year Treasury	4.95%	4.86%	4.76%	4.97%
2-Year Treasury	4.64%	4.48%	4.25%	4.64%
5-Year Treasury	4.27%	4.14%	3.85%	4.07%
7-Year Treasury	4.29%	4.17%	3.88%	3.99%
10-Year Treasury	4.28%	4.18%	3.88%	3.86%
30-Year Treasury	4.44%	4.37%	4.03%	3.91%
Consumer Rates				
30-Year Mortgage	7.31%	7.16%	6.99%	5.83%
Prime Rate	9.25%	9.25%	9.25%	8.50%
SOFR	5.30%	5.31%	5.38%	4.55%
Commodities				
Gold	2,013.59	2,024.26	2,062.98	1,836.36
Crude Oil (WTI)	79.19	76.84	71.65	75.15
Gasoline	3.28	3.18	3.12	3.42
Natural Gas	1.61	1.85	2.33	3.63
Copper	3.84	3.68	3.89	4.12

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.29	21.15	4.76	1.96
S&P 500	20.90	22.61	4.70	1.41
S&P 500 Value	16.26	17.04	2.69	2.45
S&P 500 Growth	27.33	26.23	8.22	0.63
NASDAQ	27.96	37.49	6.33	0.75
S&P Midcap 400	16.09	16.07	2.47	1.81
S&P Smallcap 600	15.49	14.46	1.84	2.26
MSCI EAFE	14.09	14.23	1.78	3.26
MSCI Emerging Markets	12.39	14.49	1.60	3.18

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	2.91	5.18	7.14
Mid	1.46	4.43	7.27
Small	3.06	3.94	4.79

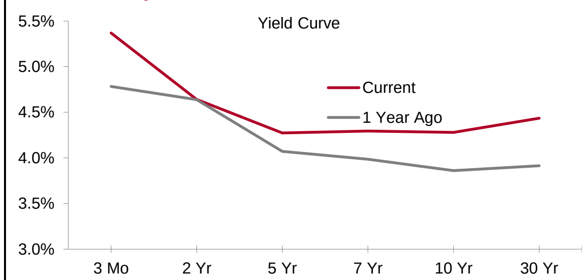
Year to Date*

	Value	Core	Growth
Large	1.94	5.15	7.96
Mid	-1.89	1.82	5.43
Small	-2.72	-0.84	1.03

> 10% | 0% - 10% | <0%

*S&P Indices

Fixed Income Style



1 Month*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	-0.42	-0.91	-1.88
Corp	-0.11	-0.52	-1.72
HY	0.68	0.24	0.58

Year to Date*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	-0.19	-1.07	-5.67
Corp	0.15	-0.82	-4.00
HY	0.57	-0.16	0.20

> 10% | 0% - 10% | <0%

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.1%	6.4%
CPI Core Inflation	3.9%	5.6%
Personal Consumption Exp (PCE) Core	2.9%	4.9%
Jobs		
Unemployment Rate (U3)	3.7%	3.4%
Broader Unemployment Rate (U6)	7.2%	6.7%
JOLT Survey (in millions)	9.03	11.23
Jobless Claims (000's)	212	216
Change in Non-Farm Payroll (000's)	353	482
Average Hourly Earnings (Y/Y % Change)	4.5%	4.6%
Consumer & Spending		
Consumer Confidence (Conf Board)	114.8	106.0
Consumer Spending ($ Bil)	19,002	17,944
Consumer Credit ($ Bil)	5,010	4,894
Retail Sales ($ Bil)	700	696
Housing		
Housing Starts (000's)	1,331	1,340
Case-Shiller Home Price Index	312.15	296.90
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	22,673	21,990
Quarter over Quarter Change	3.3%	2.6%
Year Over Year Change	3.1%	0.7%
ISM Manufacturing	49.10	47.40
Capacity Utilization	78.53	79.64
Markit US Composite PMI	52.00	46.80
U.S. General		
Leading Economic Indicators	103.1	111.0
Trade Weighted Dollar Index	121.4	120.0
EUR / USD	1.08	1.07
JPY / USD	150.21	133.94
CAD / USD	0.74	0.74
AUD / USD	0.65	0.69

S&P 500 Sector Returns

	1 Month	YTD
Communication Services	8.09%	10.24%
Information Technology	6.50%	7.59%
Health Care	4.25%	6.87%
Financials	6.21%	5.41%
Industrials	6.34%	3.63%
Energy	6.05%	2.20%
Consumer Staples	1.40%	2.15%
Consumer Discretionary	3.82%	1.56%
Materials	3.18%	-0.52%
Utilities	-2.23%	-3.32%
Real Estate	-2.40%	-4.20%

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