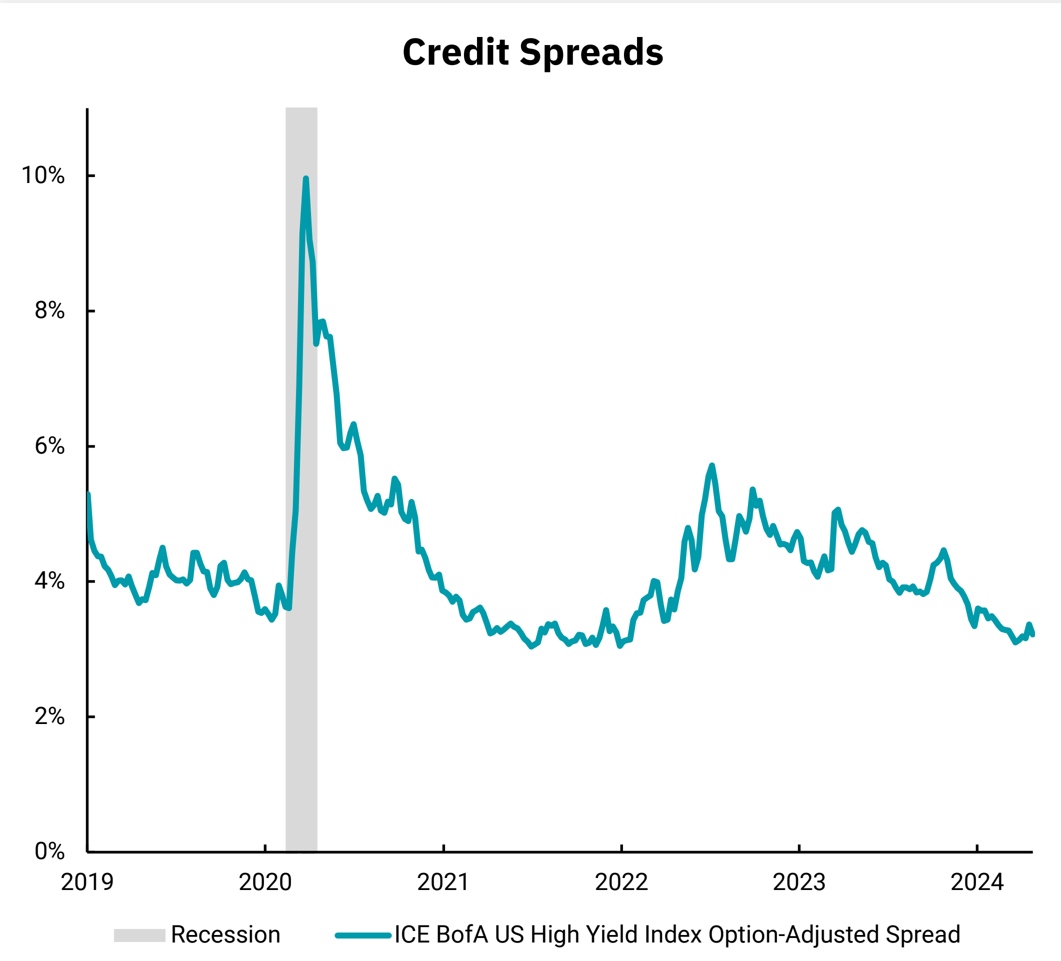
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (May 03, 2024)



The "math" of bond returns is, in some ways, easier than the "math" of equity returns. The valuation process of any asset involves making some assumptions about the future. When thinking about equities, the variability of future cash flows, earnings, interest rates and/or dividends can be highly subjective and prone to big swings. Yet when considering fixed income investments, or bonds, the math is much more certain. That's because bonds are issued at par and also mature at par, resulting in a growth rate of 0%. Cash flows also are more defined, as coupon payments are paid at known intervals between bond issuance and bond maturity. As a result, we normally have lower return expectations for bonds than for equities, based on this additional certainty that bonds provide.

However, when we introduce the concept of credit risk, bond returns can be more variable. Within the bond market, U.S. Treasury securities are assumed to have zero credit risk (an assumption which can be called into question as we approach debt ceiling limits). Meanwhile, everything other than Treasuries carries some additional measure of risk. Since we know the growth rate of bonds is zero, the only way for bond investors to demand a higher rate of return, or accept a lower rate of return, is to adjust the price they are willing to pay for a bond. When they're only willing to pay lower prices, it results in higher yields. When they're willing to pay higher prices, it results in lower yields. The lower the prices that investors are willing to pay, the larger the spread between a Treasury security and a bond with credit risk. The inverse is true for higher prices.

Our chart this week plots the spread between high-yield bonds (which have a lower credit rating) and a Treasury security. When investors demand greater return, the spread goes up. When they demand lower return, the spread goes down. Widening spreads indicate that bond investors see an environment where the lack of economic growth might make the payment of bond coupons more difficult, resulting in somewhat higher levels of defaults. Within this environment, investors will demand a higher rate of return to accept this higher level of risk. Meanwhile, lower spreads are an indication that bond investors see a period of continued economic growth. In this environment, companies will be able to pay their bond coupons, so there will be lower levels of defaults. As a result, bond investors are willing to accept somewhat lower yields.

Hence, as we think about the broad economy, credit spreads can be a very useful tool to keep in mind. Many will remember the consistent calls for a recession in 2023—and the reasons to expect this were valid. However, as we can see in the chart, the spreads demanded by investors in high-yield bonds never signaled that a recession was in the cards. Instead, spreads narrowed as the year went on and we saw economic growth accelerate. It can be difficult at times to separate "noise" from "signal," but credit spreads are at the top of our "signal" list.

Source: Federal Reserve Bank of St. Louis.

INVESTMENT MANAGEMENT

Weekly market update

Commentary (May 03, 2024)

Domestic Equities

- U.S stocks contracted in April, as investors grew cautious ahead of earnings season and due to the escalating conflict in the Middle East. The S&P 500 Index fell 4% and the Russell 2000 Index was down 7% for the month. The real estate and technology sectors were down the most, and utilities was the only positive sector for the month.
- Earnings season passed the halfway mark, and it has been positive with over 78% of companies beating expectations. Communications services and health care have been the strongest sectors.
- A Goldilocks jobs report sparked a market rally on Friday. The report was seen as anti-inflationary with wage pressure easing from March to April, and the unemployment rate ticked up. This helps pave the way for rate cuts.

Bonds

- U.S. Treasuries rallied and the yield curve bull-steepened on softer employment data and less hawkish messaging from the Federal Reserve.
- At the May 1 FOMC meeting, the Fed kept rates unchanged for a sixth consecutive meeting. However, the central bank announced changes to its quantitative tightening program, with the U.S. Treasury runoff expected to fall to $25 billion per month, down from $60 billion. In the post-meeting press conference, Fed Chair Powell reiterated the Fed's "higher-for-longer" stance but left the door open for rate cuts this year.
- The U.S. Treasury released its quarterly refunding plan (QRA), with coupon auction sizes expected to remain unchanged for "several" quarters. Near-term, T-Bill issuance is expected to increase, with the Treasury planning to borrow $243 billion in net marketable debt during 2Q24 (+$41 billion from Jan. estimate). Net borrowing is then expected to rise to $847 billion in 3Q24.

International Equities

- Investor sentiment improved this week as the Organization for Economic Co-operation and Development raised its 2024 global growth forecast to 3.1%, citing brighter outlooks for economic growth in the U.S., China and India.
- Developed markets rose, building on previous gains, when Pacific Rim markets delivered strong returns, especially in Hong Kong and Japan. Hong Kong's stock market, which closely mirrors China's struggling performance, surged over 4% during the week on top of the previous week's 9.5% gain. Sentiment shifted after China's market regulator unveiled a series of market reforms to enhance the city's status as a financial hub.
- Recent strength within Asian markets, particularly in China and India, drove gains within emerging markets. South Korea's policymakers announced guidelines for companies to focus on goals to improve shareholder returns to narrow the perceived undervaluation of its stock market..

Economics

- The Bureau of Labor Statistics (BLS) reported that total non-farm payroll employment increased by 175,000 in March. Most of the monthly increase occurred in the health care, social assistance and transportation and warehousing sectors. The unemployment rate (U-3) was 3.9%.
- The Job Openings and Labor Turnover Summary (JOLTS) indicated job openings declined by 300,000 in March—totaling 8.5 million, the lowest level since March 2021. The reduced number of openings was due to declines in construction and financial services. Separations declined by 339,000, totaling 5.2 million.
- The BLS also indicated that labor productivity increased 0.3% in the first quarter at a seasonally adjusted annualized rate, as both output and hours worked increased. Unit labor costs increased 4.7% in the quarter due to higher employee compensation.

Weekly Market Update

For Week Ending May 03, 2024

Markets

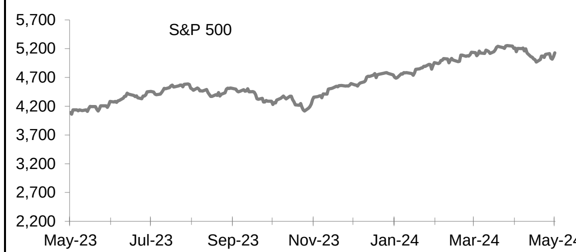
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	38,675.68	1.1%	3.2%	18.2%
S&P 500 Index	5,127.79	0.6%	8.0%	27.3%
NASDAQ Composite	16,156.33	1.4%	7.9%	35.4%
S&P 400 Midcap Index	2,929.04	1.2%	5.8%	21.5%
S&P 600 Smallcap Index	1,301.48	1.4%	-0.7%	17.8%
MSCI EAFE	8,129.60	1.6%	4.4%	10.9%
MSCI Emerging Markets	557.48	2.0%	4.4%	12.4%
Bloomberg US Agg	2,117.52	1.2%	-2.1%	-0.7%
Bloomberg Municipal 5 Yr	484.73	0.4%	-0.8%	1.8%
Bloomberg US Corporate	3,167.83	1.3%	-1.7%	2.3%
Bloomberg Glb Agg ex US Hdg	564.86	0.4%	0.0%	4.7%
Bloomberg High Yield	2,516.47	1.1%	1.5%	10.4%
MSCI US REIT Index	2,025.30	1.4%	-5.8%	4.9%
Bloomberg Commodity Index	236.95	-1.4%	4.6%	5.3%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	5.50%	5.25%
3-Month Treasury	5.39%	5.39%	5.33%	5.18%
1-Year Treasury	5.12%	5.19%	4.76%	4.63%
2-Year Treasury	4.82%	4.99%	4.25%	3.80%
5-Year Treasury	4.50%	4.69%	3.85%	3.30%
7-Year Treasury	4.50%	4.68%	3.88%	3.31%
10-Year Treasury	4.51%	4.66%	3.88%	3.34%
30-Year Treasury	4.66%	4.78%	4.03%	3.68%
Consumer Rates				
30-Year Mortgage	7.38%	7.55%	6.99%	5.83%
Prime Rate	9.25%	9.25%	9.25%	9.00%
SOFR	5.31%	5.32%	5.38%	4.81%
Commodities				
Gold	2,301.74	2,337.96	2,062.98	2,038.97
Crude Oil (WTI)	78.11	83.85	71.65	65.84
Gasoline	3.66	3.66	3.12	3.57
Natural Gas	2.14	1.92	2.33	3.22
Copper	4.56	4.57	3.89	3.87

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.97	21.25	5.03	1.89
S&P 500	20.92	22.99	4.69	1.47
S&P 500 Value	16.24	17.07	2.78	2.40
S&P 500 Growth	27.31	32.09	10.66	0.71
NASDAQ	28.57	34.79	6.28	0.81
S&P Midcap 400	15.94	16.45	2.49	1.86
S&P Smallcap 600	14.68	15.09	1.79	2.78
MSCI EAFE	14.94	14.09	1.85	3.17
MSCI Emerging Markets	12.89	14.91	1.68	2.91

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	-2.07	-1.53	-1.08
Mid	-1.91	-2.18	-2.43
Small	-1.11	-0.90	-0.69

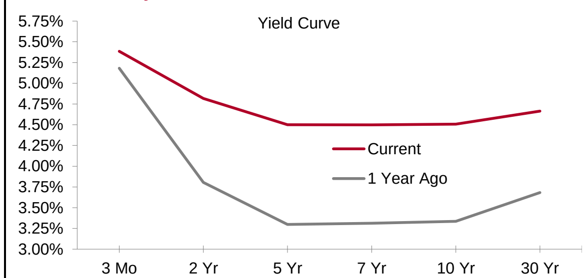
> 10% · 0% - 10% · <0%

*S&P Indices

Year to Date*

	Value	Core	Growth
Large	4.29	7.99	11.22
Mid	0.16	5.80	11.25
Small	-3.77	-0.71	2.35

Fixed Income Style



1 Month*

	Short	Interm.	Long
Govt	0.14	-0.17	-1.79
Corp	0.29	0.01	-1.24
HY	0.53	0.56	-1.80
	1-3 Yrs	1-10 Yrs	+10 Yrs

> 10% · 0% - 10% · <0%

Year to Date*

	Short	Interm.	Long
Govt	0.36	-0.89	-7.32
Corp	1.07	-0.11	-4.66
HY	2.28	1.51	-0.57
	1-3 Yrs	1-10 Yrs	+10 Yrs

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.5%	5.0%
CPI Core Inflation	3.8%	5.6%
Personal Consumption Exp (PCE) Core	2.8%	4.8%
Jobs		
Unemployment Rate (U3)	3.9%	3.4%
Broader Unemployment Rate (U6)	7.4%	6.6%
JOLT Survey (in millions)	8.49	9.62
Jobless Claims (000's)	208	214
Change in Non-Farm Payroll (000's)	175	278
Average Hourly Earnings (Y/Y % Change)	3.9%	4.7%
Consumer & Spending		
Consumer Confidence (Conf Board)	97.0	103.7
Consumer Spending ($ Bil)	19,351	18,283
Consumer Credit ($ Bil)	5,051	4,926
Retail Sales ($ Bil)	708	679
Housing		
Housing Starts (000's)	1,321	1,380
Case-Shiller Home Price Index	312.18	293.46
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	22,769	22,112
Quarter over Quarter Change	1.6%	2.2%
Year Over Year Change	3.0%	1.7%
ISM Manufacturing	49.20	47.00
Capacity Utilization	78.41	79.51
Markit US Composite PMI	51.30	53.40
U.S. General		
Leading Economic Indicators	102.4	108.4
Trade Weighted Dollar Index	123.3	119.5
EUR / USD	1.08	1.11
JPY / USD	153.05	134.71
CAD / USD	0.73	0.73
AUD / USD	0.66	0.67

S&P 500 Sector Returns

	1 Month	YTD
Communication Services	-1.33%	16.91%
Energy	-4.60%	11.55%
Information Technology	-1.62%	10.17%
Utilities	5.18%	9.00%
Financials	-2.55%	8.34%
Industrials	-1.75%	8.16%
Consumer Staples	2.09%	7.12%
Materials	-3.61%	4.97%
Health Care	-2.21%	3.70%
Consumer Discretionary	-0.49%	2.73%
Real Estate	-3.62%	-6.86%

Disclosures

BOK FINANCIAL