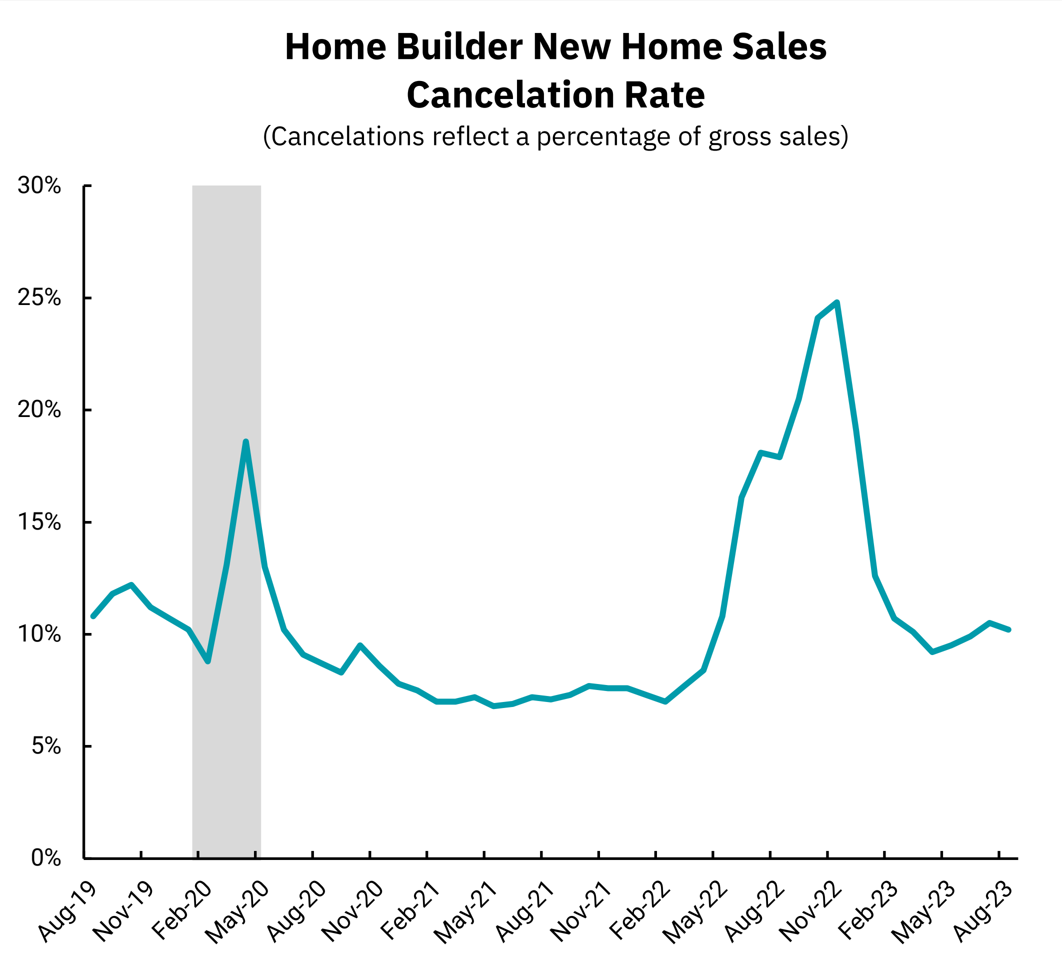
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Sep. 22, 2023)

BOK FINANCIAL



Home Builder New Home Sales Cancelation Rate

(Cancelations reflect a percentage of gross sales)

The U.S. housing market is historically one of the economy's most interest-rate-sensitive sectors. Therefore, as we entered 2023 and expected additional rate increases from the Federal Reserve, our outlook was for the housing market to be weak and at risk of price declines. The reality of 2023 to date has been materially different.

Thirty-year mortgage rates have moved significantly higher, now over 7%, having the effect of reducing the pool of potential buyers. Yet the supply of homes for sale has declined to near unprecedented levels, meaning the remaining pool of buyers is still larger than the available supply. Why has the supply of homes declined so much? A large majority of homes in the U.S. now have mortgages with rates far below existing market rates. Some 75% of home mortgages are below 4%, and close to 90% are below 5%. This makes the decision to sell a house, even at still elevated prices, difficult as one knows the interest cost to buy a different home will be much higher. This has left newly constructed homes as the primary source of available housing supply.

Until recently, home builders were one of the better performing sectors in the S&P 500, but the recent response to the Fed's forecast for rates to stay higher for longer may make even the new housing market a bit difficult. The ten-year Treasury note, a primary mortgage pricing benchmark, has moved to rates not seen since 2007.

This week's chart shows the level of contract cancellations by new homebuyers. We can see a couple of spikes higher during the onset of the pandemic and then again from August to October of 2022. The spike during the pandemic quickly reversed course as the Fed lowered interest rates aggressively, reducing borrowing costs. But the increase we saw last year might give us a better idea of what we might see in the coming months as it occurred as mortgage rates were first moving materially higher and gave borrowers a reason to pause on planned purchases. Over time, home buyers became more accustomed to higher rates and the impact on their budgets, so purchase cancellations fell, yet the recent trend moving higher could result in a similar type of shock. Very recent data indicates home contract cancellations are, in fact, moving higher, which could be another headwind to the housing market in the coming months.

Overall, the strength of the U.S. economy remains resilient. But it would be naïve to think higher rates are not going to have an impact on major purchases like housing and autos. We will be watching both of these markets closely as we move into 2024.

Source: John Burns Research and Consulting, LLC, independent survey of ~20% of all U.S. new home sales, NSA (Data: Aug. 2023)

INVESTMENT MANAGEMENT

Weekly market update

Commentary (Sep. 22, 2023)

Domestic Equities

- U.S. stocks ended down for the third week in a row as investors face the reality of a prolonged high interest-rate environment. The S&P 500 Index has declined over 5% since hitting year-to-date highs at the end of July, and the tech-heavy Nasdaq Composite Index has declined over 7%.
- The Federal Reserve kept rates steady this week as expected, but central bank officials indicated their expectation to keep rates high well into 2024. These hawkish statements, combined with stronger-than-expected employment data and bond yields at the highest level in over a decade, sparked a midweek stock sell-off.
- Increasing gas prices are keeping inflation high and weighing on consumers. Crude oil futures reached over $90 per barrel this week for the first time in a year. High rates and energy costs are pushing investors to sell consumer-dependent stocks and move into more conservative sectors.

Bonds

- U.S. Treasury yields finished the week higher following a more hawkish outlook for rates from the Federal Reserve. Specifically, on Wednesday, the Fed released its updated Summary of Economic Projections (SEP) that showed a 0.50% rise in the median expected Fed Funds rates for 2024 and 2025. Additionally, almost two-thirds of the committee is still leaning toward one additional rate hike in 2023.
- The broad investment grade market was negative as measured by the Bloomberg US Aggregate Bond Index, with higher rates and wider spreads to a lesser extent driving weakness across the market.
- In international markets, it was a busy week for central bank announcements, with Brazil's central bank cutting its main policy rate by 0.50%. In contrast, the Riksbank, Norges Bank and the central bank of Turkey hiked rates by 0.25%, 0.25% and 5.00%, respectively.

International Equities

- Global stock markets encountered turbulence as investors worried that interest rates could remain higher than previously expected, dampening sentiment.
- Foreign developed stock markets ran into turbulence this week as most markets across the Pacific and European regions struggled. Europe faced headwinds after a flurry of interest rate decisions from central banks, with the Bank of England and Swiss National Bank pausing their respective hiking cycles, and the Swedish and Norwegian central banks opting to raise interest rates.
- Emerging markets erased last week's gains as most markets across Asia and Latin America fell. Chinese stocks rallied on Friday as rumors circulated that policymakers may make policy changes to support its struggling economy and boost investor confidence in the country's stock market.

Economics

- The Census Bureau reported monthly housing starts declined 11.3%, totaling 1.2 million in August at a seasonally adjusted annualized rate, which is the lowest level of housing starts since June 2020. Although housing starts declined, building permits increased 6.9%, totaling 1.5 million.
- The Department of Labor reported initial claims for unemployment insurance for the week ending Sep. 16 were 201,000, a decline of 20,000 from the prior week. This is the lowest level of claims since Jan. 28, 2023, and below the four-week moving average of 217,000.
- Consumer spending, personal income and the University of Michigan consumer confidence reports will all be released on Friday.

BOK FINANCIAL

Weekly Market Update

For Week Ending September 22, 2023

Markets

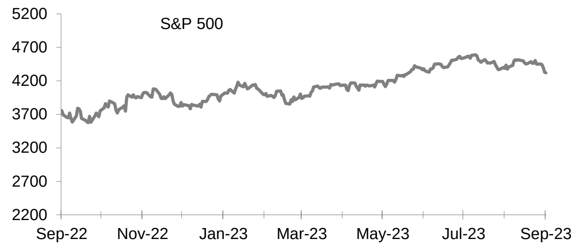
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	33,963.84	-1.9%	4.1%	15.4%
S&P 500 Index	4,320.06	-2.9%	13.9%	16.9%
NASDAQ	13,211.81	-3.6%	27.0%	20.4%
S&P 400 Midcap Index	2,495.51	-2.8%	3.9%	11.0%
S&P 600 Smallcap Index	1,146.45	-3.4%	0.3%	5.6%
MSCI EAFE	7,151.54	-2.0%	8.6%	22.4%
MSCI Emerging Markets	500.62	-2.1%	3.0%	7.3%
Bloomberg US Agg	2,043.73	-0.5%	-0.2%	0.4%
Bloomberg Municipal 5 Yr	469.26	-0.6%	0.1%	2.2%
Bloomberg US Corporate	3,004.08	-0.3%	1.2%	2.7%
Bloomberg Glb Agg ex US Hdg	537.87	-0.2%	3.1%	2.4%
Bloomberg High Yield	2,324.02	-0.7%	6.3%	8.2%
MSCI US REIT Index	1,889.19	-5.2%	-1.3%	-1.6%
Bloomberg Commodity Index	240.31	-1.1%	-2.3%	-3.9%

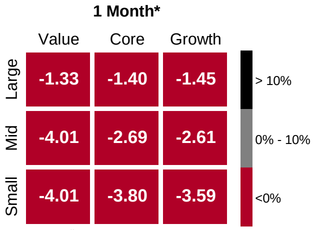
	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	4.50%	3.25%
3-Month Treasury	5.47%	5.45%	4.34%	3.17%
1-Year Treasury	5.45%	5.42%	4.69%	4.00%
2-Year Treasury	5.11%	5.03%	4.43%	4.12%
5-Year Treasury	4.56%	4.46%	4.00%	3.94%
7-Year Treasury	4.52%	4.42%	3.97%	3.86%
10-Year Treasury	4.43%	4.33%	3.87%	3.71%
30-Year Treasury	4.52%	4.42%	3.96%	3.64%
Consumer Rates				
30-Year Mortgage	7.64%	7.55%	6.66%	5.83%
Prime Rate	9.25%	9.25%	8.25%	7.00%
SOFR	5.30%	5.31%	4.77%	2.99%
Commodities				
Gold	1,925.23	1,923.91	1,824.02	1,671.22
Crude Oil (WTI)	90.03	90.02	80.26	74.68
Gasoline	3.85	3.87	3.21	3.69
Natural Gas	2.64	2.64	4.48	5.09
Copper	3.70	3.80	3.81	3.45

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.46	19.51	4.40	2.10
S&P 500	19.62	19.65	4.11	1.65
S&P 500 Value	17.20	17.47	2.73	2.13
S&P 500 Growth	22.22	22.05	7.20	1.25
NASDAQ	28.23	31.97	5.35	0.86
S&P Midcap 400	14.92	13.60	2.14	2.14
S&P Smallcap 600	14.32	12.78	1.64	1.92
MSCI EAFE	13.28	12.48	1.66	3.37
MSCI Emerging Markets	13.31	10.12	1.48	3.03

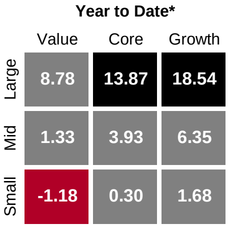
Source: Bloomberg

Equity Style





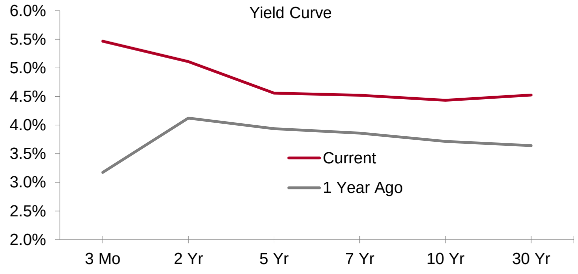
	Value	Core	Growth
Large	-1.33	-1.40	-1.45
Mid	-4.01	-2.69	-2.61
Small	-4.01	-3.80	-3.59

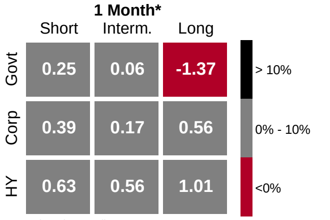


	Value	Core	Growth
Large	8.78	13.87	18.54
Mid	1.33	3.93	6.35
Small	-1.18	0.30	1.68

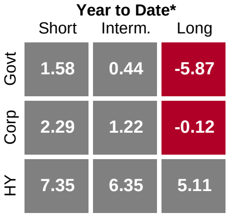
*S&P Indices

Fixed Income Style





	Short	Interm.	Long
Govt	0.25	0.06	-1.37
Corp	0.39	0.17	0.56
HY	0.63	0.56	1.01



	Short	Interm.	Long
Govt	1.58	0.44	-5.87
Corp	2.29	1.22	-0.12
HY	7.35	6.35	5.11

*Bloomberg Indices.

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.7%	8.3%
CPI Core Inflation	4.3%	6.3%
Personal Consumption Exp (PCE) Core	4.2%	4.7%
Jobs		
Unemployment Rate (U3)	3.8%	3.7%
Broader Unemployment Rate (U6)	7.1%	7.0%
JOLT Survey (in millions)	8.83	11.38
Jobless Claims (000's)	201	191
Change in Non-Farm Payroll (000's)	187	352
Average Hourly Earnings (Y/Y % Change)	4.3%	5.4%
Consumer & Spending		
Consumer Confidence (Conf Board)	106.1	103.6
Consumer Spending ($ Bil)	18,534	17,420
Consumer Credit ($ Bil)	4,985	4,751
Retail Sales ($ Bil)	698	681
Housing		
Housing Starts (000's)	1,283	1,505
Case-Shiller Home Price Index	308.25	308.32
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	20,387	19,895
Quarter over Quarter Change	2.1%	-0.6%
Year Over Year Change	2.5%	1.8%
ISM Manufacturing	47.60	52.90
Capacity Utilization	79.67	80.71
Markit US Composite PMI	50.10	49.50
U.S. General		
Leading Economic Indicators	105.4	114.1
Trade Weighted Dollar Index	121.7	124.8
EUR / USD	1.07	0.98
JPY / USD	148.37	142.39
CAD / USD	0.74	0.74
AUD / USD	0.64	0.66

S&P 500 Sector Returns

	1 Month	YTD
Communication Services	0.65%	40.45%
Information Technology	-2.35%	34.83%
Consumer Discretionary	-2.35%	27.01%
Industrials	-3.45%	4.96%
Energy	3.04%	4.65%
Material	-2.49%	2.36%
Financials	0.68%	-0.10%
Consumer Staples	-1.58%	-2.84%
Health Care	-1.87%	-3.03%
Real Estate	-3.20%	-4.10%
Utilities	0.92%	-8.05%

Disclosures

BOK FINANCIAL

The information provided herein was prepared by the Investment Management team of BOKF, NA. BOKF, NA is the bank subsidiary of BOK Financial Corporation (BOKF), a financial services holding company (NASDAQ:BOKF). BOKF offers trust and wealth management services through its subsidiaries including BOKF, NA (and its banking divisions Bank of Oklahoma, Bank of Texas, Bank of Albuquerque, and BOK Financial) and investment advisory services through its non-bank subsidiaries, Cavanal Hill Investment Management, Inc., and BOK Financial Private Wealth, Inc., each an SEC registered investment adviser, and BOK Financial Securities, Inc., also an SEC registered investment adviser and registered broker/dealer, member FINRA/SIPC (each an “Investment Affiliate”) (collectively, “BOKF”). Distribution of this document is intended for informational purposes. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. The opinions expressed herein reflect the judgment of the author(s) as of the date prepared and are subject to change without notice and are not a complete analysis of any sector, industry, or security regardless of the date on which the reader may receive or access the information. The information provided is intended to be educational in nature and not advice relative to any investment or portfolio offered through an Investment Affiliate, and does not constitute any form of regulated financial, legal, or tax advice, or other regulated financial service. The content provided herein is not a solicitation for the investment management services of any Investment Affiliate, nor is it intended to constitute a recommendation for, or advice to, any specific person on behalf of any Investment Affiliate, as it does not take into account the financial objectives, situation, or needs of any specific person. This information is provided on the understanding that the recipient has sufficient knowledge and experience to be able to understand and make their own evaluation of said content, any risks associated therewith, and any related legal, tax, accounting, or other material considerations. Recipients should not solely rely on this material in making any future investment decision. To the extent that the recipient has any questions regarding the applicability of any specific issue discussed above to their specific portfolio or situation, they are encouraged to consult with a qualified lawyer, accountant, or financial professional.

This document may contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates, and projections, the securities and credit markets and the economy in general. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "plans," "projects," variations of such words and similar expressions are intended to identify such forward-looking statements. Management judgments relating to and discussion of the value and potential future value or performance of any security, group of securities, type of security or market segment involve judgments as to expected events and are inherently forward-looking statements. These statements are not guarantees of future performance. Likewise, past performance is not a guarantee of future results. This content is prepared for the use of the Investment Affiliates and their clients and prospective clients, and may not be reproduced, redistributed, retransmitted or disclosed, or referred to in any publication, in whole or in part, or in any form or manner, without the express written consent of BOKF or BOKF, NA. Any unauthorized use or disclosure is prohibited. Receipt and review of this document constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained herein. This report should not be distributed without the attached disclosures, and is considered incomplete if the disclosures are not attached.

*This chart is for illustrative purposes only and not indicative of any actual investment.
Asset allocation, diversification, and rebalancing do not ensure a profit or protect against loss in declining markets. Investing involves risks, including possible loss of principal, and there is no guarantee that investment objectives will be achieved.