June 2023: Market Review

U.S. stocks made a sizable move higher in June as economic growth and consumer spending have proved resilient in the wake of higher goods prices. Additionally, forward earnings estimates on the S&P 500 Index appear to have bottomed in recent weeks, implying the worst of the recent earnings decline may already be priced in. The S&P 500 Index gained +6.6% in June, the Dow Jones Industrial Average Index appreciated +4.7%, and the NASDAQ increased by +6.7%. One major concern entering the month of June was resolved, or temporarily resolved, as President Joe Biden signed the U.S. debt spending bill which suspended the debt ceiling until January 2025. The student loan forgiveness bill was struck down by the U.S. Supreme Court which could negatively impact consumer spending but lessen the potential tax burden on the government in ensuing years. The Federal Reserve elected not to raise rates in June, but projected that one or two rate hikes are likely in the second half of 2023. Inflation appears to be moderating as the Consumer Price Index monthly report showed headline inflation to be 4%, year-over-year, down from the highs last summer of 9%.

The stock market rally in June was more broad-based than the market advance during the previous five months. Mega-cap technology stocks, which significantly outperformed the broader market through May, posted gains in June but were in-line with the rest of the market. Value stocks and smaller cap stocks, which had been shunned through May, received renewed interest during the month. The Russell 1000 Growth was up +6.8% versus the Russell 1000 Value, +6.6%. The Russell MidCap Value was up +8.7% and outperformed the Russell MidCap Growth Index +7.7%. The Russell 2000 Growth (+8.3%) modestly outpaced the Russell 2000 Value (+7.9%). WTI crude oil rose to $69 per barrel, a dollar higher than May's closing price.

Developed international equities underperformed U.S. equities in June, as recession worries increased in Europe. Ongoing turmoil in Russia and Ukraine also were relative headwinds for international equities. The MSCI EAFE Index increased +4.6%, while the MSCI ACWI ex USA Index (which included emerging markets) rose +4.5%. The MSCI Emerging Markets Index increased +3.8%. Emerging markets were led by South American countries for the month (Brazil +15.9%, Columbia +10.3%, and Peru +10.0%). China was up +3.3% for the month as the Chinese government lowered rates and implemented new policies to tackle inflation as the post-pandemic reopening momentum has begun to slow. Japan advanced +4.1% for the month.

The Bloomberg U.S. Aggregate Bond Index declined -0.4% for the month of June, as yields rose (particularly on the short end) due to the persistent hawkish guidance from Fed officials. The Fed projects one-to-two more 25 basis point rate hikes in the back half of the year, while the market is currently pricing in a single rate hike. Importantly, no rate cuts in 2023 are being priced into markets, unlike three months ago when two-to-three cuts were expected in the aftermath of the Silicon Valley Bank failure. Lower rated bonds outperformed investment grade bonds as the Bloomberg US Corporate High Yield Index gained +1.7% in June. Longer duration bonds outpaced shorter duration bonds as the Bloomberg US Govt/Cred Long Bond Index +0.8% outperformed the Bloomberg US Govt/Cred Intermediate Bond Index -0.7%. The inversion between the 2-year Treasury and the 10-year Treasury widened this month, ending at -1.06%.

The market rally in June has brought the S&P 500 Index within 9.4% of its all-time high. Investors have begun to warm to the idea that the Fed may induce a "soft landing" for the economy, while others more bullishly are stating "no landing". However, many leading economic indicators (PMI, yield curve, money supply) continue to flash 'caution' signals. The Federal Reserve's handling of interest rates in the back half of 2023, as well as the communication of the rate path into 2024, will likely impact the length and size of this equity rally in the calendar year. Stubborn inflation readings could be a decisive data point for the Fed if inflation shows little sign of falling below 4% in the back half of this year.

See footnotes on the following page.

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