First Trust

Weekly Market Commentary

Week Ended May 12, 2023

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	5.152 (-4.9 bps)	Bond Buyer 40 Yield:	4.38 (1 bps)
6 Mo. T-Bill:	5.084 (4.1 bps)	Crude Oil Futures:	70.04 (-1.3)
1 Yr. T-Bill:	4.734 (1.0 bps)	Gold Spot:	2,010.77 (-6.02)
2 Yr. T-Note:	3.987 (7.3 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	3.656 (1.4 bps)	US High Yield:	8.65 (3 bps)
5 Yr. T-Note:	3.446 (3.6 bps)	BB:	7.02 (3 bps)
10 Yr. T-Note:	3.463 (2.6 bps)	B:	8.95 (1 bps)
30 Yr. T-Bond:	3.789 (3.5 bps)		

Yields on Treasuries were weak early last week as inflation and economic data were mixed. The 2-month Treasury, however, experience large relative price action as Congressional Leadership and the President continue to dither on the debt ceiling. Such is the situation that Treasury Secretary Janet Yellen declared that the federal government would have to renege on promised congressional outlays if Congress cannot come to agreement on raising the debt limit. She said on Bloomberg Television, “If Congress fails to do that, it really impairs our credit rating. We have to default on some obligation, whether it’s Treasuries or payments to Social Security recipients.” Last week’s economic data most parsed by the market included the April Producer Price Index registering a smaller than expected expansion giving rise to hopes that inflation continues to moderate. However, the week ended with Friday’s preliminary University of Michigan consumer sentiment survey showing 5–10-year inflation expectations at 3.2% - well above the Federal Reserve’s target 2% rate. Treasury yields spiked on Friday as a result. Crude Oil continues to go lower and Brent crude, the global oil benchmark, has seen a 13% fall year-to-date. Supply has been strong to start 2023 and while OPEC and the IEA expect the 2H of 2023 to see demand begin to outpace supply, market price action seems to have taken the other side of the supply/demand trade on recession fears. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Monday: May Empire Manufacturing (-3.9, 10.8); Tuesday: April MoM Retail Sales Advance (0.8%, -1.0%); Wednesday: May 12 MBA Mortgage Applications (N/A, 6.3%) and April Housing Starts (1400K, 1420K); Thursday: May 13 Initial Jobless Claims (252k, 264k), April Existing Home Sales (4.3M, 4.44M) and April Leading Index (-0.6%, -1.2%)

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	33,300.62 (-1.04%)	Strong Sectors:	Comm. Services, Cons. Discretionary
S&P 500:	4,124.08 (-0.24%)		Cons. Staples
S&P Midcap:	2,432.73 (-1.11%)	Weak Sectors:	Financials, Materials
S&P Smallcap:	1,119.61 (-1.66%)		Energy
NASDAQ Comp:	12,284.74 (0.44%)	NYSE Advance/Decline:	1,312 / 1,638
Russell 2000:	1,740.85 (-1.04%)	NYSE New Highs/New Lows:	50 / 118
		AAII Bulls/Bears:	29.4% / 41.2%

Stocks slumped last week with nearly all major U.S. equity indices ending the week in the red outside of the NASDAQ Composite which climbed a measly 44 basis points higher. The NASDAQ’s small gain can be attributed to its relatively large weight in the Communication Services and Consumer Discretionary sectors, which performance was mostly driven by Mega-Caps **Alphabet** and **Amazon** that had total returns of 11.02% and 5.31%, respectively, for the week. The muted performance for equities can primarily be attributed to heightened uncertainty among all market participants who have been strategically cautious digesting information bringing the VIX slightly above its year low. Both retail and institutional investors are juggling potential threats to the economy such as entrenched inflation expectations, continued bank failures, and an unprecedented possibility of a U.S. Government default, making it increasingly difficult to find a safe space to weather the storm. While outlook among investors continues to be shaky there were a few glimmers of light last week, **First Solar Inc.** was the best performer in the S&P 500 surging almost 30% on the government’s new guidance for clean energy tax credits which will favor manufacturers that source their components from the US. Additionally, CPI numbers came in slightly below consensus estimates with the YoY CPI reading at 4.9% marking the first time in two years that it has hit sub-5% levels giving some investors hope that the Fed may be able to manage bringing down inflation without pushing the economy into a recession. Roughly 90% of S&P 500 constituents have reported earnings which have largely been better than expected but done little to move the index with it trading almost flat since the start of the 2nd quarter. This week all eyes will be on large retailers reporting earnings, namely **Walmart**, **Target**, and **Home Depot** as investors look to gain insight into the resiliency of consumers.