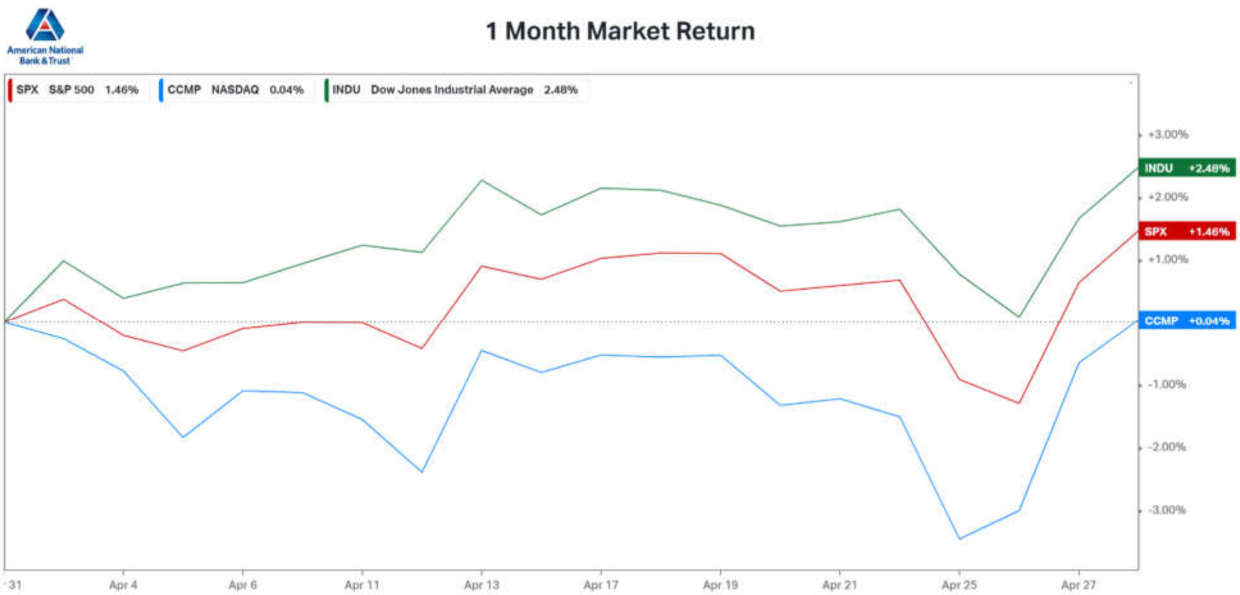
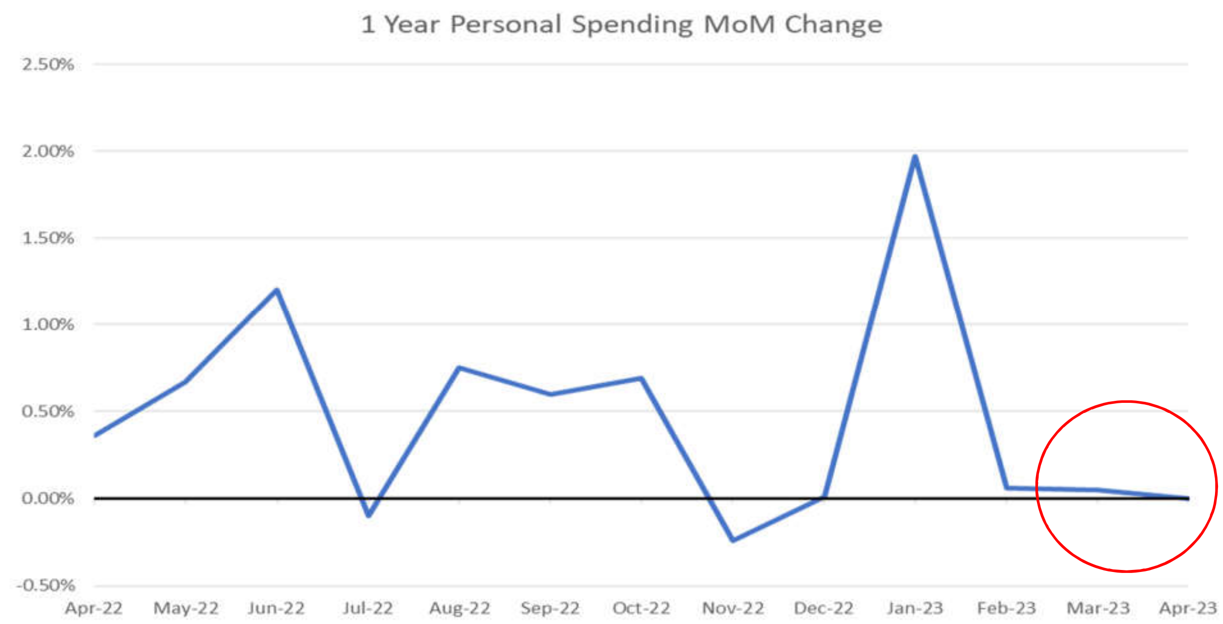
April Update

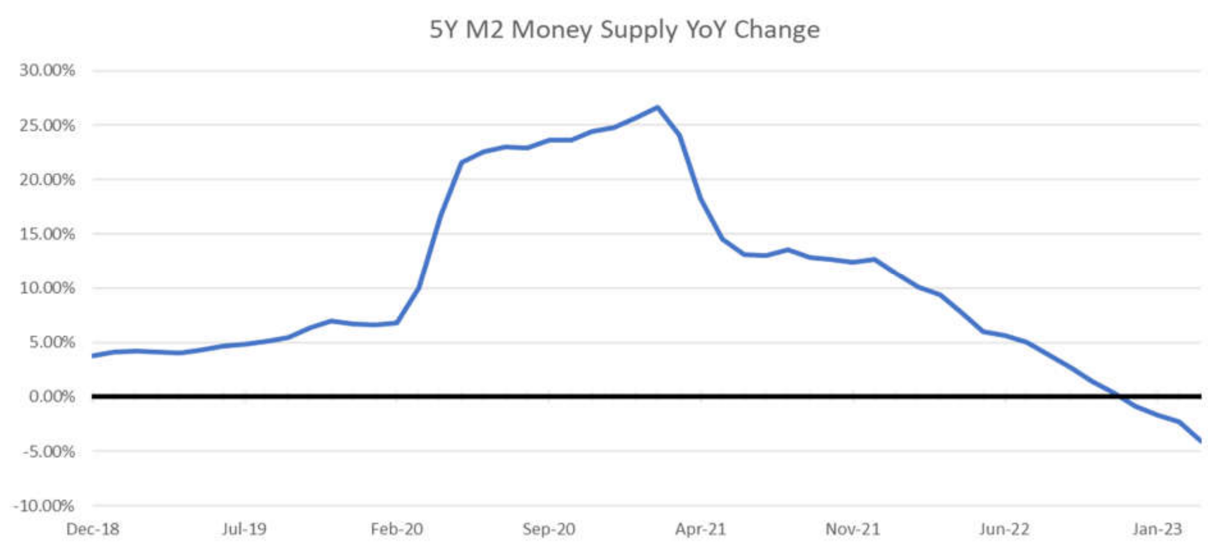
The S&P 500 gained 1.46% in April, largely due to a rally at month-end. This came after Amazon (AMZN), Alphabet (GOOG), and Microsoft (MSFT) reported their earnings and showed better than expected growth in their cloud services. This gain hasn't come without push back though. Fears within the regional banking system still linger and more specifically, First Republic Bank (FRC) seems facing an FDIC takeover or aquisition by another bank.



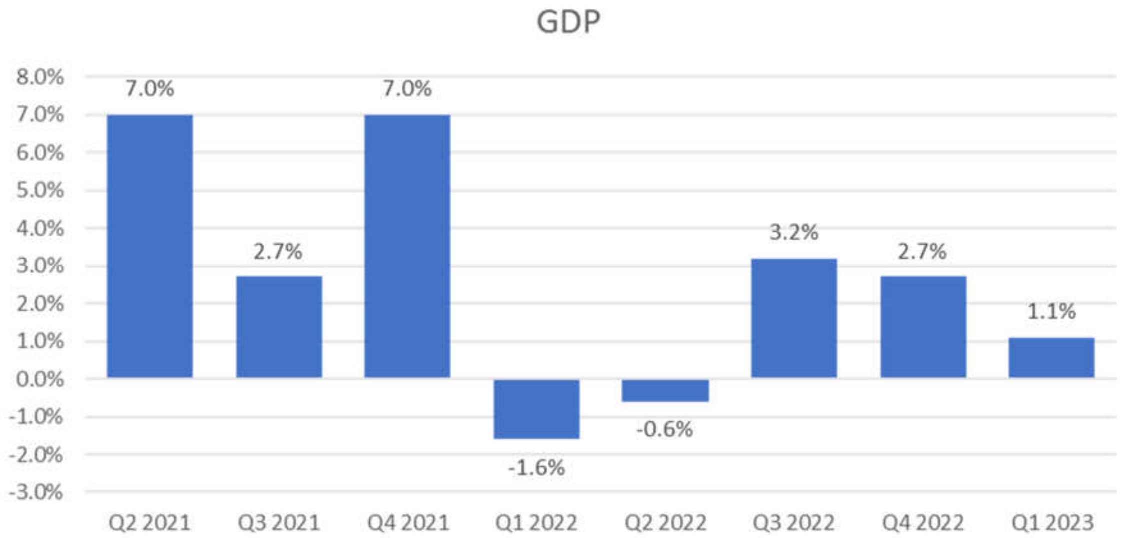
Mortgage rates were falling consistently from their 2023 high watermark of 6.73% in mid-March. That is, until it hit its April low at 6.27%. Since then mortgage rates rose to 6.43%. Pending home sales also declined for the first time this year, falling (-5.2%) from the prior month. Purchasing a home from a broader perspective, leads to many more downstream purchases, such as furniture, lawn care equipment, or DIY home renovations. This can indicate that as pending home sales fall so does personal spending. April's personal spending has been trending down from March and came in at 0.00% change, as shown on the graph on the following page.



Another reason personal spending could be falling is that the M2 money supply is shrinking. M2 money supply is defined as cash, checking deposits, savings deposits, and money market vehicles. The year-over-year change on M2 money supply first began shrinking in December 2022; since then, it has been shrinking at a larger rate each month. The last reported data showed it fell (-4.05%). As the Federal Open Markets Committee (FOMC) raises rates, they are hoping to slow the economy in order to bring inflation down to their target inflation rate of 2%. The M2 money supply shrinking also indicates that the economy is, in fact, slowing.



The FOMC's primary concern about the current fiscal tightening cycle is the possibility that over tightening will cause a recession. The textbook definition of a recession is two consecutive quarters of negative GDP. As shown on the graph, we met that definition in the beginning of 2022, but the national Bureau of Economic Research (NBER), which is responsible for calling a recession, did not call one. They consider other economic factors before making that call. The latest reported GDP shows an increase of 1.1%, trending down the last two periods.



The economy is beginning to slow and the FOMC is beginning to discuss when to pause interest rate increases. Once they pause, the contraction of the economy should continue for a bit as the interest rates trickle through the economy. As for now, the stock market is continuing to be resilient and offering value in selected areas. We will continue to hunt for value in this ever-changing market.

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