Signs of Improved Outlook Unnerve Markets

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Another second-tier data release had an oversized impact on the financial markets this morning as jittery investors guess at the direction of growth and prices. The S&P Global US Composite PMI unexpectedly climbed from 51.3 to 54.4 in May, the highest in a year, and an unsettling indication that the economy may be reaccelerating. The manufacturing index rose from 50.1 to 50.9, but it was the service index that drew most of the attention jumping from 51.3 to 54.8 as purchasing manager's outlook improved. This signal of increased demand suggests uncomfortably warm inflation may persist.

Bond market yields are rising for the second straight day as investors recalibrate expectations for the initial rate cut. Yesterday's sell-off was fueled in part by the minutes to the May FOMC meeting which appeared somewhat hawkish while reinforcing the Fed's expectations that monetary policy will remain on hold until price pressures ease. The minutes didn't dismiss the possibility of a rate hike. This shouldn't have been a surprise as committee members have been reading from a cautious script for months.

In other news, slowing home sales have done little to ease stubborn home prices. This morning, the Census Bureau reported April new home sales fell -4.7% to a 634k annual pace, the lowest of the year and -7.1% below the same period in 2023. The median sales price for a newly constructed home slipped from $439k to $433K in April but was +3.8% higher on an annual basis. At the current sales pace, it would take 9.1 months to deplete the supply of new homes on the market.

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Earlier this week, existing home sales *(which make up 85% to 90% of all sales)* fell for the second straight month in April, but *prices continued to climb* despite improved (but still lean) supply. The National Association of Realtors (NAR) reported sales had unexpected declined -1.9% last month to a seasonally adjusted annual pace of 4.14 million units. Since reaching a 15-year high of 6.6 million annualized units in early 2021, sales of previously owned homes have plunged as the Fed boosted lending rates.

The median selling price for an existing home in April rose +5.7% year-over-year to $407,600. According to the NAR, it was the 10th consecutive month of annual increases and *the highest price for any April on record.* Fortunately, disappointing April sales did boost the available inventory by +9% to 1.21 million, a +16.3% increase from a year ago. At the current sales pace, it would take 3.5 months to deplete supply, up from 3.0 months a year ago, but *well below the 5-month supply representative of a normally functioning market.*

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As of this morning, the futures market is indicating just a single quarter point rate cut for 2024. Although the outlook remains fluid, the window to ease rates is narrowing quickly as the year progresses. There are five remaining FOMC meetings in 2024, and at this point, it's unlikely that inflation will recede enough to allow policymakers to cut the overnight rate before September.

Please see disclosure starting on page 2

Market Indications as of 12:13 P.M. Central Time

DOW	Down -348 to 39,323 (HIGH: 40,004)
NASDAQ	Up 87 to 16,888 (NEW HIGH)
S&P 500	Down 0 to 5,307 (HIGH: 5,321)
1-Yr T-bill	current yield 5.20%; opening yield 5.14%
2-Yr T-note	current yield 4.94%; opening yield 4.87%
3-Yr T-note	current yield 4.72%; opening yield 4.65%
5-Yr T-note	current yield 4.53%; opening yield 4.46%
10-Yr T-note	current yield 4.48%; opening yield 4.42%
30-Yr T-bond	current yield 4.59%; opening yield 4.54%