First Trust

Weekly Market Commentary

Week Ended May 26, 2023

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	5.229 (1.2 bps)	Bond Buyer 40 Yield:	4.62 (4 bps)
6 Mo. T-Bill:	5.370 (8.3 bps)	Crude Oil Futures:	72.37 (+1.12)
1 Yr. T-Bill:	5.223 (24.5 bps)	Gold Spot:	1,946.46 (-31.35)
2 Yr. T-Note:	4.562 (29.6 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	4.237 (28.7 bps)	US High Yield:	8.91 (4 bps)
5 Yr. T-Note:	3.927 (19.5 bps)	BB:	7.29 (14 bps)
10 Yr. T-Note:	3.798 (12.6 bps)	B:	9.19 (14 bps)
30 Yr. T-Bond:	3.961 (3.4 bps)		

U.S. Treasury yields rose significantly over the course of the week on debt ceiling talks and expectations of an interest rate hike from the Federal Reserve Bank. Early in the week the focus was on the impasse in negotiations on raising the debt ceiling, as investors now see an increased risk of the two sides not reaching a deal. On Monday, St. Louis Fed President James Bullard hinted at additional rate hikes this year and Minneapolis Fed President Neel Kashkari said that there may be additional hikes this year even if they are paused at the next meeting. Later in the week the focus shifted to the rise of artificial intelligence as a technology, and the growth of companies related to it. Equities rose significantly on Thursday and Friday and Treasury yields followed suit as investors took a more risk-on approach. This was despite there being no significant progress on a debt ceiling deal by the end of the week and a higher likelihood of an interest rate hike. The market implied probability of a 25-basis-point increase in the Federal Funds Rate during the June 14th meeting began the week at 18% and had risen to 69% by the end of the week. In the long term the market implied rate at the end of 2023 increased from 4.634 to 4.999 over the course of the week. Major economic reports (related consensus forecasts, prior data) for the upcoming holiday-shortened week include Tuesday: May Conf. Board Consumer Confidence (99.0, 101.3); Wednesday: May 26 MBA Mortgage Applications (n/a, -4.6%), May MNI Chicago PMI (47.3, 48.6); Thursday: May ADP Employment Change (165k, 296k), May 27 Initial Jobless Claims (235k, 229k), May Final S&P Global US Manufacturing PMI (48.5, 48.5), May ISM Manufacturing (47.0, 47.1); Friday: May Change in Nonfarm Payrolls (190k, 253k), May Unemployment Rate (3.5%, 3.4%).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	33,093.34 (-0.97%)	Strong Sectors:	Comm. Services, Info. Tech., Cons. Discretionary
S&P 500:	4,205.45 (0.35%)		
S&P Midcap:	2,442.85 (-0.51%)	Weak Sectors:	Health Care, Materials, Cons. Staples
S&P Smallcap:	1,146.48 (0.18%)		
NASDAQ Comp:	12,975.69 (2.52%)	NYSE Advance/Decline:	1,200 / 1,934
Russell 2000:	1,773.02 (-0.02%)	NYSE New Highs/New Lows:	118 / 214
		AAII Bulls/Bears:	27.4% / 39.7%

Equities ground higher last week with the S&P 500 up 0.4%, after the last of earnings season had some positive results. The headline of the week was **NVIDIA Corp.** which saw demand for their GPUs (graphic processing units) skyrocket because of the need for their chips to process data for AI GPTs (generative pre-trained transformers). NVIDIA announced quarterly revenues 10% higher than expected and hiked revenue guidance to $11b for next quarter from $7.2b this last quarter. As a result, their stock was up 24.4% on Thursday adding ~$184b to their market cap. According to Statista, this was the 3rd largest one day gain in market cap in U.S. history. There was a significant sympathy rally from the NVIDIA news in semiconductors as Advanced Micro Devices, Broadcom Inc. and KLA Corp. all hit 52-week highs. Cosmetic retailer **Ulta Beauty Inc.** had a -14.4% return last week after announcing quarterly results. Revenue and earnings were in-line with expectations but that came at the expense of EBITDA margins which dipped to 19% from 23.2% last quarter. **Dollar Tree Inc.** also announced quarterly results with revenue in-line with expectations but weak earnings per share, the budget retailer saw shares return -11.0% last week as a result. Margins sagged to 8.4% from 10.5% as the company cited an unfavorable sales mix for the results. In other retail news, **Target Corp**. saw its shares return -8.8% last week after the mass retailer responded to customer outrage at the prominence of LGBTQ+ themed products in their stores. Store management decided to move some displays and eliminate some merchandise to satisfy customer demands, while also trying to alleviate headaches for their workers who had to deal with angry customers. Looking ahead to next week, all eyes will be on Washington DC as the debt limit deal has not been voted on yet. The U.S. Treasury currently claims to have <$35b in cash, the lowest levels since 2017 bringing increased pressure on lawmakers to strike a deal amid worries of a sovereign downgrade of U.S. credit ratings grows.