WEST SHORE BANK

WEEKLY RECAP - August 7, 2023

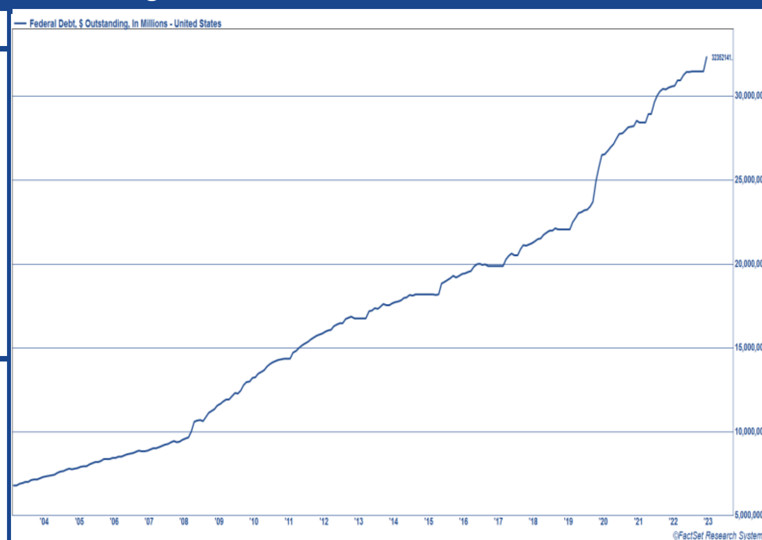
Economic & Market Commentary

Fitch. Sounds like a pets name, a nickname, or the name of a movie. It's not. It's the name of the credit rating agency that last Tuesday downgraded U.S. Government debt to AA+ from AAA and did the same to Fannie Mae and Freddie Mac on Wednesday. Most media outlets didn't even cover the story, so you may be learning of this for the first time. Fitch cited three reasons for the downgrade. First, "there has been a steady deterioration in standards of governance over the last 20 years, including on fiscal and debt matters". Second, is the expectation that the government’s deficit will rise to 6.3% of GDP in 2023 from 3.7% in 2022 and will widen further to 6.9% in 2025. Finally, Fitch cited the interest debt burden and that: "Over the next decade, higher interest rates and the rising debt stock (issuance) will increase the interest service burden". The majority of pundits and experts discounted Fitch's action. The interest service burden is rising significantly and will become an increasing annual outlay for the U.S. government. For example, issuing $2 trillion of debt in 2021 at an average interest rate of +0.50% equates to $10 billion in interest owed while issuing $2 trillion in 2023 at +5.0% equates to $100 billion in interest owed. Stock markets did not react kindly to the downgrade finishing moderately lower for the week. The bond market initially saw yields push higher across the curve but retreated on the short and intermediate part of the curve due to weaker than expected July labor market job gains. The longer part of the curve pushed higher. The yield curve has been inverted for over a year now and I expect it to flatten over the next 6-9 months. The short end will move lower on anticipated Fed rate cuts, but the long end will move higher adjusting to structural changes to inflation, higher deficit spending, unwinding of Fed balance sheet, and escalating debt issuance. The U.S. Treasury is expected to issue $1 trillion of debt just this quarter, which would be a record.

Index Total Returns - August 4, 2023

	1-Wk	YTD	1-Yr
NASDAQ	-2.84	33.53	10.32
S&P 500	-2.26	17.75	9.71
MSCI-Developed	-2.38	12.38	13.56
Russell 2000	-1.19	12.10	4.28
S&P 400	-1.28	11.40	9.55
MSCI-Emerging	-2.37	8.39	5.27
Dow Jones	-1.11	7.04	9.47
Barclay's U.S. Bond Index			
High Yield	-0.36	6.22	2.92
Municipal	-1.26	1.79	-0.55
Int. Gov. Credit	0.07	1.74	-1.34
Aggregate	-0.59	1.29	-4.09
5-year Muni	-0.78	0.74	-0.95

Outstanding U.S. Debt



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	5.33	5.38	3.00
U.S. 2-Yr	4.77	4.90	3.04
U.S. 3-Yr	4.47	4.54	2.97
U.S. 5-Yr	4.17	4.20	2.77
U.S. 10-Yr	4.06	3.97	2.67
U.S. 30-Yr	4.20	4.03	2.96

S&P 500 Sector Total Returns - August 4, 2023

Sector	1-Wk	YTD	1-Yr
Communication Services	-2.83	41.62	15.18
Info Tech	-4.14	40.35	18.82
Consumer Discretionary	-0.22	35.25	3.62
Industrials	-1.77	11.12	14.87
Materials	-2.03	8.60	11.15
Financials	-0.77	3.03	6.64
Consumer Staples	-1.90	1.96	3.62
Real Estate	-2.35	1.92	-11.81
Energy	1.20	0.65	26.23
Health Care	-2.09	-1.78	2.37
Utilities	-4.59	-7.85	-11.43

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	3.46	3.24	2.47
U.S. AA	3.57	3.34	2.61
U.S. A	4.05	3.82	3.09
U.S. Baa	4.64	4.43	3.55
U.S. Municipal	3.72	3.49	2.77
Michigan	3.89	3.66	2.84

Index Characteristics	P/E NTM	P/E NTM 10yr-Avg.	Dividend Yield
S&P 500 - Large Cap	19.15	17.67	1.50
S&P 400 - Mid Cap	14.07	15.49	1.49
S&P 600 - Small Cap	14.22	15.92	1.69

Sources: FactSet, Fitch, U.S. Dept. of Treasury