WEST SHORE BANK

WEEKLY RECAP - August 21, 2023

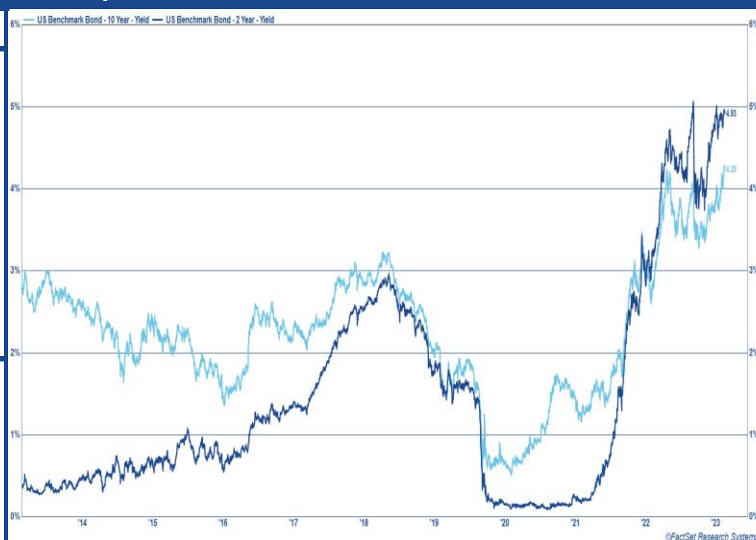
Economic & Market Commentary

Because the Federal Reserve has lifted short-term rates 11 times since March 2022, most economists and pundits expect the economy to move into a recession. There has been much discussion and pontification regarding the coming recession which is expected to start in the second half of this year. According to FactSet, consensus economic forecasts for the third and fourth quarter of this year are +0.8% and -0.4% respectively. Even the Federal Reserve is forecasting a weak second half of this year. Funny thing is the economy continues to press forward. The Federal Reserve of Atlanta produces the report GDP Now which is "a running estimate of real GDP based on available economic data for the current measured quarter." As of August 16, GDP Now is forecasting third-quarter economic growth of +5.8%. This estimate has moved higher with each major economic release over the past month including manufacturing, auto sales, monthly jobs report, imports and exports, CPI, PPI, monthly Treasury statement (deficit), and retail sales. Retail sales in July came in much stronger than forecasted at +0.70% vs consensus of +0.40% signaling the U.S. consumer is still hanging in there. GDP Now forecasted contributors to economic growth include personal consumption expenditures (which took a big jump with the strong July retail sales), equipment sales, intellectual property, residential investment, government spending, and exports. The only detractor is non-residential investment. It is taking much longer for the Fed's rate hikes to work their way through the economy than anticipated. The rate hike effects are flowing more like a slow leaky faucet drip than the pressure of an open faucet. The rate hikes will work their way through the economy as more and more consumer and business loans are refinanced. Based on the economic data, one could make the argument for below trend growth (soft landing) as opposed to a recession. Regardless, this means the Fed will be holding rates higher for longer, and this will continue to pressure yields on the long part of the yield curve as investors adjust to the structural reality of a higher rate environment.

Index Total Returns - August 18, 2023

	1-Wk	YTD	1-Yr
NASDAQ	-2.55	27.69	3.42
S&P 500	-2.05	15.02	3.76
MSCI-Developed	-3.30	8.06	8.74
S&P 400	-3.02	7.23	0.16
Russell 2000	-3.36	6.58	-5.60
Dow Jones	-2.10	5.52	3.71
MSCI-Emerging	-3.29	2.80	-1.92
Barclay's U.S. Bond Index			
High Yield	-0.82	5.69	2.35
Municipal	-0.58	1.62	0.64
Int. Gov. Credit	-0.22	1.05	-1.29
5-year Muni	-0.26	0.75	0.21
Aggregate	-0.50	0.13	-4.13

Treasury 2-Year and 10-Year Yields



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	5.35	5.35	3.11
U.S. 2-Yr	4.93	4.90	3.22
U.S. 3-Yr	4.64	4.57	3.25
U.S. 5-Yr	4.38	4.31	3.03
U.S. 10-Yr	4.25	4.17	2.88
U.S. 30-Yr	4.38	4.27	3.13

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	3.56	3.46	2.80
U.S. AA	3.59	3.49	2.93
U.S. A	4.09	3.99	3.39
U.S. Baa	4.68	4.59	3.84
U.S. Municipal	3.76	3.66	3.09
Michigan	3.94	3.85	3.15

S&P 500 Sector Total Returns - August 18, 2023

Sector	1-Wk	YTD	1-Yr
Communication Services	-2.74	38.19	10.15
Info Tech	-0.77	35.35	11.85
Consumer Discretionary	-4.09	28.47	-3.62
Industrials	-2.43	9.08	8.06
Materials	-2.33	5.03	2.46
Energy	-1.18	3.00	16.33
Financials	-2.79	0.18	-2.78
Consumer Staples	-2.37	-0.12	-1.88
Real Estate	-3.23	-0.48	-16.76
Health Care	-1.53	-0.91	2.46
Utilities	-1.74	-8.58	-15.83

Index Characteristics	P/E NTM	P/E NTM 10yr-Avg.	Dividend Yield
S&P 500 - Large Cap	18.58	17.69	1.54
S&P 400 - Mid Cap	13.61	15.51	1.56
S&P 600 - Small Cap	13.57	15.91	1.78

Sources: FactSet, Atlanta Federal Reserve Bank