WEST SHORE BANK

WEEKLY RECAP - October 23, 2023

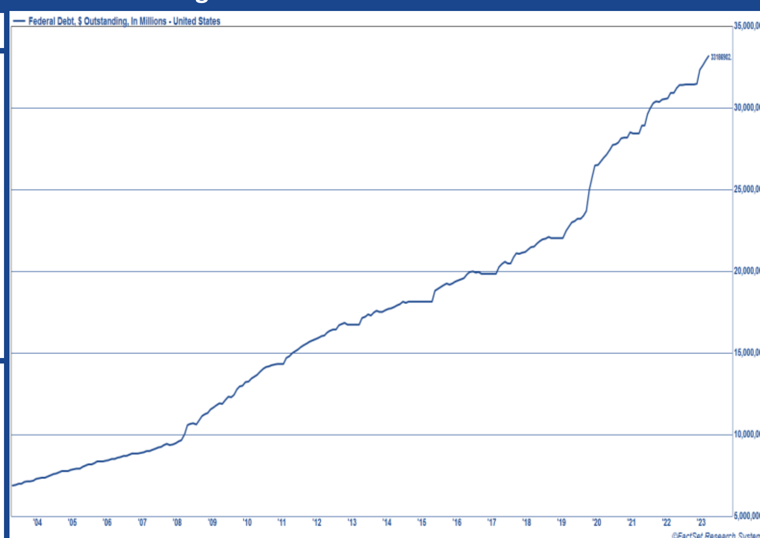
Economic & Market Commentary

Bond yields rose sharply last week on the intermediate and long-end of the yield curve which sent bond and stock prices lower. Last Thursday, the 10-year treasury breached the 5.0% mark which is its highest level since July 2007. With most economists, analysts, and market indicators predicting the Fed is close to being done raising short-term rates, why are interest rates moving up on the long-end of the yield curve? Like most things economic, there are a number of factors pushing long rates higher. Let's start with the resilient economy. Economic activity continues to surprise to the upside. September retail sales came in much hotter than forecasted rising +0.70% vs the expected +0.30%. Despite much higher interest rates, consumers continue to spend at a healthy clip. Labor market strength supports consumer spending and data continues to show a tight labor market. Last week, weekly jobless claims fell below the 200,000 mark for the first time since last January. Another factor is the "higher for longer" interest rate reality. Bond investors are coming to grips with the fact that the Fed is going to keep short-term rates "higher for longer" and long-term rates are adjusting to this fact. Long-term rates could press a bit higher to a range of 5.25% - 5.50% but are unlikely to press higher than short-term rates. However, above-trend growth may lead the Fed to raise short-term rates again and the long end will adjust accordingly. The final factors, which I contend right now are the most important, are U.S. deficit spending and political dysfunction. For fiscal year 2023, the U.S. Gov't posted a deficit of $1.7 trillion. U.S. debt stands at $33.6 trillion and is rapidly rising. The U.S. Treasury is expected to issue over $1 trillion of bonds this quarter. It boils down to supply and demand. With the Fed unwinding its balance sheet and no longer a buyer of U.S. debt, investors are pressing for a higher risk premium to own U.S. debt. Along with the political dysfunction in Congress, who could blame investors for wanting a higher risk premium. Wouldn't be surprised at all if Moodys joins the other credit rating agencies and finally decides to downgrade U.S. debt sometime soon.

Index Total Returns - October 20, 2023

	1-Wk	YTD	1-Yr
NASDAQ	-3.16	24.87	23.40
S&P 500	-2.38	11.47	17.18
MSCI-Developed	-2.59	3.37	18.64
Dow Jones	-1.57	1.67	11.61
S&P 400	-2.02	-0.21	7.46
MSCI-Emerging	-2.70	-1.05	9.90
Russell 2000	-2.25	-3.40	0.18
Barclay's U.S. Bond Index			
High Yield	-1.17	3.91	7.57
Int. Gov. Credit	-0.71	-0.01	2.92
5-year Muni	-0.65	-1.12	1.35
Municipal	-1.42	-2.22	1.13
Aggregate	-1.73	-3.13	1.25

U.S. Outstanding Debt



U.S. Treasury Yields

Treasury Yields	Latest Close	Week Ago	1-Year Ago
U.S. 1-Yr	5.41	5.41	4.69
U.S. 2-Yr	5.08	5.04	4.60
U.S. 3-Yr	4.91	4.81	4.64
U.S. 5-Yr	4.85	4.64	4.44
U.S. 10-Yr	4.92	4.63	4.22
U.S. 30-Yr	5.08	4.77	4.22

Municipal Yields - Bloomberg/Barclays Index

Issue Type	Latest Close	Week Ago	1-Year Ago
U.S. AAA	4.26	4.05	3.64
U.S. AA	4.31	4.10	3.79
U.S. A	4.81	4.59	4.36
U.S. Baa	5.33	5.12	4.88
U.S. Municipal	4.48	4.26	3.97
Michigan	4.61	4.40	4.09

S&P 500 Sector Total Returns - October 20, 2023

Sector	1-Wk	YTD	1-Yr
Communication Services	-0.55	43.88	36.50
Info Tech	-3.13	34.60	38.10
Consumer Discretionary	-4.45	19.90	10.60
Energy	0.71	5.59	10.30
Industrials	-2.97	1.81	16.38
Materials	-3.02	-1.64	10.02
Financials	-2.91	-4.45	5.22
Health Care	-1.62	-4.56	5.23
Consumer Staples	0.83	-6.78	3.20
Real Estate	-4.47	-9.03	-1.28
Utilities	-2.12	-15.72	-3.58

Index Characteristics	P/E NTM	P/E NTM 10yr-Avg.	Dividend Yield
S&P 500 - Large Cap	17.62	17.80	1.60
S&P 400 - Mid Cap	12.44	15.60	1.70
S&P 600 - Small Cap	11.48	15.18	2.11

Sources: FactSet, U.S. Treasury