

WEEKLY MARKET RECAP: June 26–June 30, 2023

Happy Friday, traders.

Welcome to our weekly market wrap, where we look back at these last five trading days with a focus on the market news, economic data and headlines that had the most impact on the financial market – and may continue to into the future for the US Dollar and other key correlated assets.

Last week, investors parsed a slew of forward-looking data as they work to gauge the probability of a near-term recession. The Conference Board Leading Economic Index (LEI), a bellwether of economic health, took centre stage, and revealed a continued divergence between the economy and financial markets.

As shown in this week's chart, the fall in the LEI index in May marked its 14th consecutive month of decline. This resulted in a 6-month change of -4.3%; although not perfect, a negative reading on the LEI has been a decent signal of softer economic activity on the horizon. A closer look at the components of the index reveals that consumer expectations for business conditions emerged as the largest negative contributor, followed closely by the yield curve spread. The yield curve is now as inverted as it was during the regional banking crisis, indicating elevated risk to the economy.

Credit conditions aren't expected to improve anytime soon either, as banks, particularly smaller ones, still face the risk of losing deposits and an increase in losses on their portfolio of securities as interest rates remain elevated for longer. On the flip side, building permits provided the largest positive contribution last month, spurred by a record low supply of existing homes. However, the sustainability of this uptick can be questioned given challenges around housing affordability.

With the Federal Reserve's revised dot plot indicating two more rate hikes before the end of the year, the risk that a policy error triggers a recession is looming on the horizon. As such, we continue to believe investors should focus on quality assets across both equities and fixed income, while maintaining a short-to-intermediate stance from a duration perspective.

Thanks for reading! Have a great weekend.

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