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# THE ECONOMY AT A GLANCE

## ECONOMIC HIGHLIGHTS

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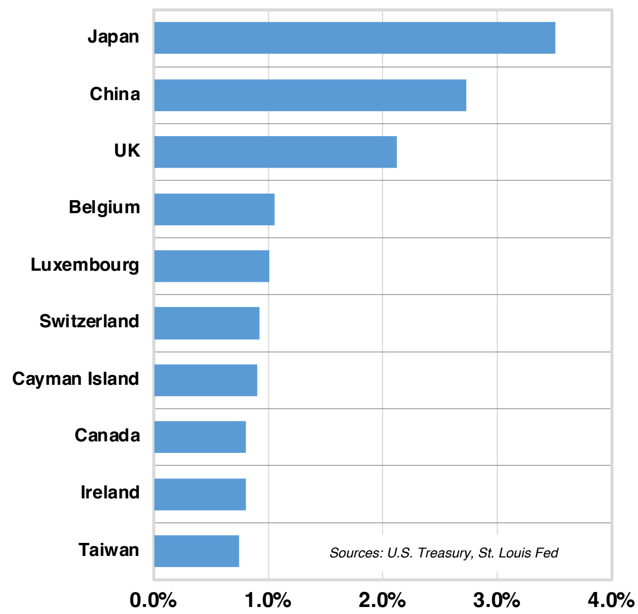
### GLOBAL DEMAND FOR U.S. DEBT

Total public debt owed by the U.S. federal government was $31.5 trillion at the end of 1Q23. Outside of U.S. investors, the two largest holders of U.S. public debt are Japan, which owns 3.5% of the debt, and China, which owns 2.7%. The other nations among the top 10 own 7.7% of the debt, so the top 10 holders collectively own 13.9%. The grand total of U.S. debt owned by foreign holders is $7.4 trillion, or about 23%. While the absolute holdings number is down about 3.0% over the past year, we suspect that these holders are unlikely to dump much more of their debt in the medium term. Historically, Japan's holders have been long-term in nature, while their local sovereign-bond yields are almost zero and not particularly enticing. China has little reason to sell a large portion of its holdings: the increase in supply would merely depress the balance of its holdings and could even weaken the dollar -- setting off trade repercussions as the country works to recover from its zero-COVID policy. Indeed, when some nations have lowered their U.S. Treasury holdings (such as Ireland, which sold off 18% of its stake over the past year), others have stepped in to buy (such as Canada, which increased its holdings by 17%.) We think this global demand for U.S. Treasuries should help keep a lid on long-term rates in 2023.

#### LARGEST FOREIGN HOLDERS OF U.S. DEBT

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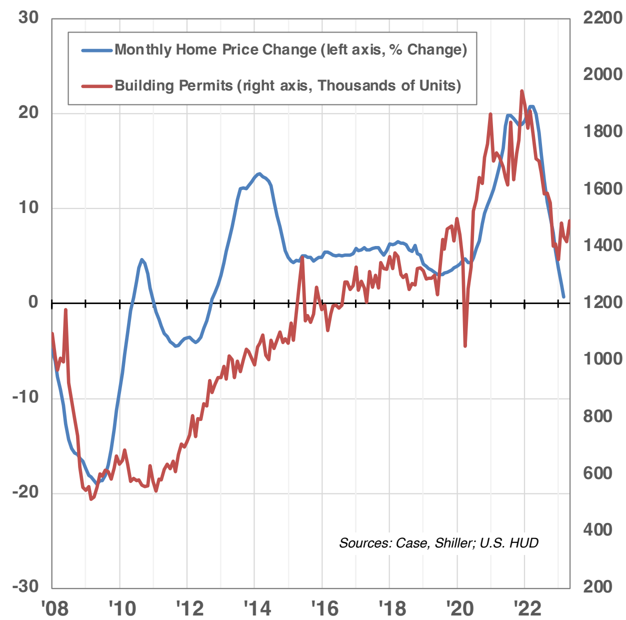
## HOUSING COULD CONTRIBUTE TO 2Q GDP

Homebuilding last contributed to GDP growth in 1Q21. While permits in May 2023 were lower than last May on a seasonally adjusted annual basis, starts and completions increased. The National Association of Home Builders/Wells Fargo Housing Market Index surpassed 50 for the first time since July 2022. A reading above 50 indicates that more builders see conditions as good than poor. NAHB economist Robert Dietz offered the following: "Additional housing supply is good news for inflation data, because more inventory will help to reduce shelter inflation, which is now a leading source of growth for the CPI." The National Association of Realtors announced that existing home sales in May rose 0.2% from April, to a seasonally adjusted annualized rate of 4.3 million. Sales were down 20.4% from May 2022. The inventory of existing homes remained low, at just 3.0 months, but did increase slightly from both the prior month and the prior year. The NAR reported that the average home price in May declined 3.1% from the prior year to $396,100.

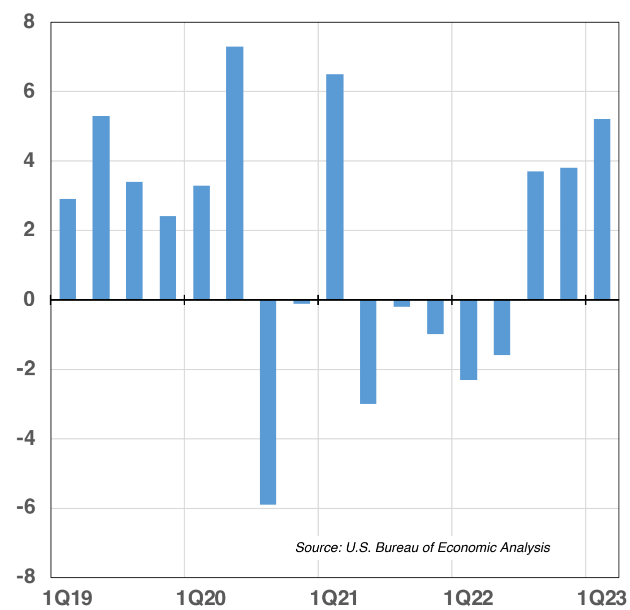
**HOUSING MARKET TRENDS**




## D.C. SPENDING POSITIVE AGAIN

Over the past decade, government spending has accounted for 15%-19% of overall GDP. Some of the lower rates were during the 2010s, when Congress imposed a sequestration program in exchange for an increase in the debt ceiling in 2011. Of course, spending picked up during the pandemic, as bipartisan programs flooded the economy with $4.6 trillion in fiscal stimulus (according to the Government Accountability Office). We calculate that government spending, on average, has increased at a 1.7% annualized rate over the past four years. Of the three GDP components that comprise government spending, the biggest driver has been nondefense spending, which on average has risen at an 8% rate (distorted by the pandemic, of course). Defense spending has grown at a rate below 1%, though we note a sharp acceleration to 4%-5% growth since Russia invaded Ukraine. Washington has just been through another debt-cap debate, and growth may be limited in the quarters ahead. Still, the government remains committed to the Biden infrastructure plan as well as the CHIPS & Science Act -- and we anticipate that government spending will continue to contribute to overall GDP growth.

**GOVT SPENDING GROWTH RATES (% CHANGE AT ANNUALIZED RATE)**

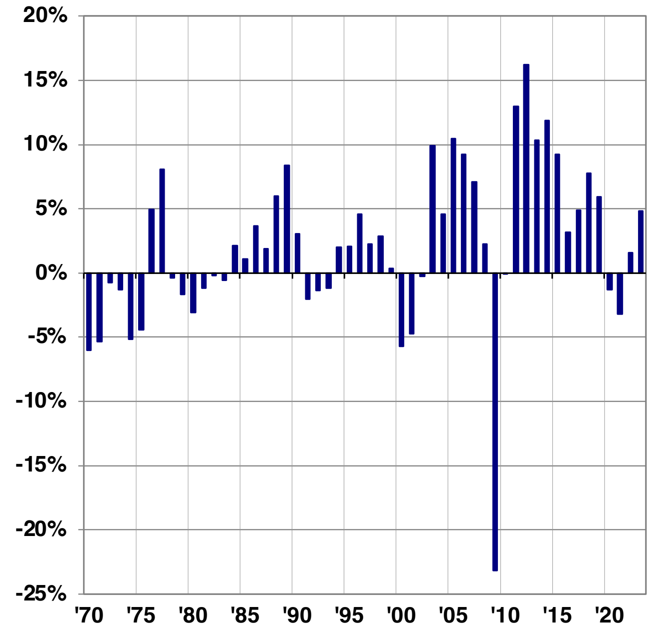


## FINANCIAL MARKET HIGHLIGHTS

### THREE SIGNALS FROM DIVIDEND GROWTH

We think companies that raise their dividends consistently at a double-digit rate are sending off three important signals amid the recent market volatility: 1) the company's balance sheet is strong enough to pay a dividend; 2) management is focused on shareholder returns; and 3) management is confident enough in the near-term outlook to raise the payout aggressively. This third factor is especially important during periods of economic weakness. On average, the dividends of S&P 500 companies have grown 2.0% per year since 1970. At times, the dividend growth rate has been negative, for example, during economic slowdowns in the early 1970s, 1980s, and 1990s; the bear markets of 2000, 2008, and 2009; and the COVID-19 pandemic period. On the other side of the spectrum, double-digit dividend growth is rare. Only in six of the past 50 years has the average dividend growth rate been 10% or higher. More recently, dividend growth accelerated to 7% in 2018-2019, which was a good period for stocks as trade wars calmed and the Federal Reserve took a dovish stance on interest rates. But dividend growth slowed sharply in 2020 due to the pandemic, with the rate turning negative; growth has been negligible-to-moderate since then. At this stage of economic cycle, we recommend that investors focus on dividend growth instead of dividend yield.

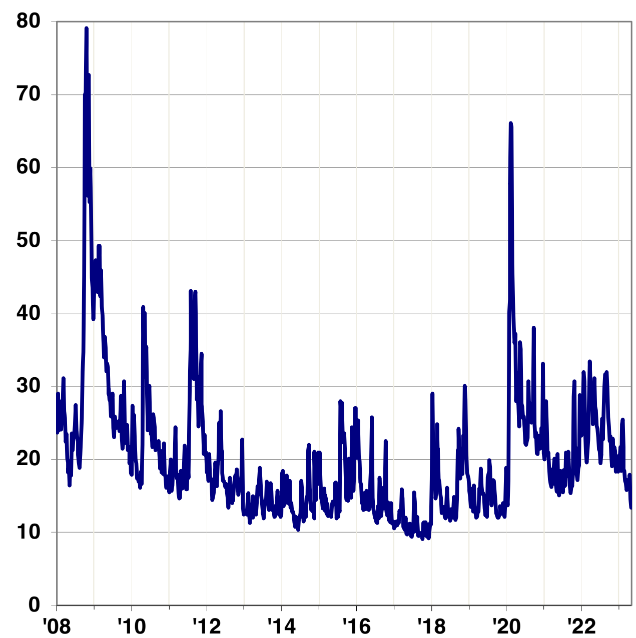
S&P 500 ANNUAL DIVIDEND GROWTH




### STOCK MARKET CALMS

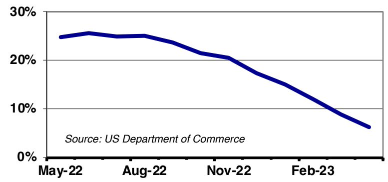
The VIX Volatility Index has dropped back to pre-pandemic lows and is predicting smoother sailing for investors in the months ahead. The latest reading of the VIX is about 13.5. This is the lowest reading since January 2020, when the first COVID-19 cases were occurring in China. The VIX jumped as high as 85 in mid-March 2020 and generally stayed above the long-term average reading of 20 through 2022, as investors worried about the pandemic, inflation, supply-chain snags, the Russian invasion of Ukraine, the Fed's rate-hike campaign, the debt ceiling, bank failures, and recession. Readings below 20 generally correlate with bull-market rallies, most recently the long bull market that began after the Great Recession and ran until March 2020. But a low VIX doesn't mean that risks have disappeared. The economy continues to teeter on the edge of recession, the Fed may not be finished raising rates, and China poses a long-term threat, potentially reducing benefits from globalization. Then, of course, in 2024, the U.S. will have another presidential election.

VOLATILITY INDEX (WEEKLY CLOSE)

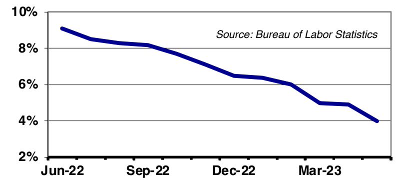


# ECONOMIC TRADING CHARTS & CALENDAR

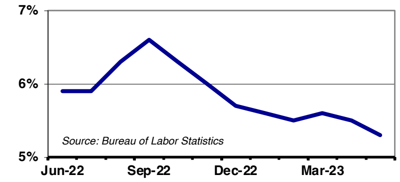
Release: **Wholesale Inventories**
Date: 7/10/2023
Month: May
Previous Report: 6.3%
Argus Estimate: 4.0%
Street Estimate: NA



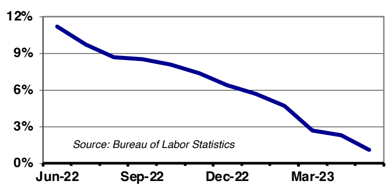

Release: **Consumer Price Index**
Date: 7/12/2023
Month: June
Previous Report: 4.0%
Argus Estimate: 3.5%
Street Estimate: 3.1%



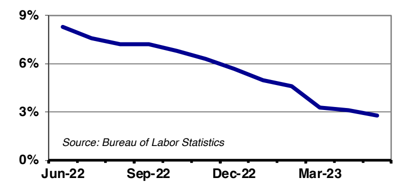

Release: **CPI ex-Food & Energy**
Date: 7/12/2023
Month: June
Previous Report: 5.3%
Argus Estimate: 5.0%
Street Estimate: 5.0%



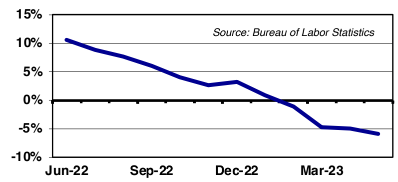

Release: **PPI Final Demand**
Date: 7/13/2023
Month: June
Previous Report: 1.1%
Argus Estimate: 0.5%
Street Estimate: NA



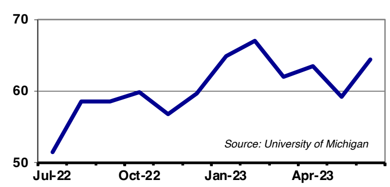

Release: **PPI ex-Food & Energy**
Date: 7/13/2023
Month: June
Previous Report: 2.8%
Argus Estimate: 2.0%
Street Estimate: NA




Release: **Import Price Index**
Date: 7/14/2023
Month: June
Previous Report: -5.9%
Argus Estimate: -6.5%
Street Estimate: NA




Release: **U. of Michigan Sentiment**
Date: 7/14/2023
Month: July
Previous Report: 64.4
Argus Estimate: 66.0
Street Estimate: NA




*Previous Week's Releases and Next Week's Releases on next page.*

## Previous Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|---|---|---|---|---|---|---|
| 3-Jul | ISM Manufacturing | June | 46.9 | 47.0 | 47.3 | NA |
| | ISM New Orders | June | 46.2 | 43.0 | NA | NA |
| | Construction Spending | April | 7.2% | 5.5% | NA | NA |
| | Total Vehicle Sales | June | 15.05 Mil. | 15.5 Mil. | NA | NA |
| 5-Jul | Factory Orders | May | 0.2% | 0.2% | NA | NA |
| 6-Jul | ISM Services Index | June | 50.3 | 51.0 | 50.8 | NA |
| 7-Jul | Nonfarm Payrolls | June | 339 K | 190 K | 198 K | NA |
| | Unemployment Rate | June | 3.7% | 3.7% | 3.7% | NA |
| | Average Weekly Hours | June | 34.3 | 34.4 | 34.4 | NA |
| | Average Hourly Earnings | June | 4.3% | 4.2% | NA | NA |

## Next Week's Releases

| Date | Release | Month | Previous Report | Argus Estimate | Street Estimate | Actual |
|---|---|---|---|---|---|---|
| 18-Jul | Retail Sales | June | 1.6% | NA | NA | NA |
| | Retail Sales ex-autos | June | 1.0% | NA | NA | NA |
| | Business Inventories | May | 5.2% | NA | NA | NA |
| | Industrial Production | June | 0.2% | NA | NA | NA |
| | Capacity Utilization | June | 79.6% | NA | NA | NA |
| 19-Jul | Housing Starts | June | 1631 K | NA | NA | NA |
| 20-Jul | Leading Index | June | -0.7% | NA | NA | NA |
| | Existing Home Sales | June | 4.30 Mil. | NA | NA | NA |