



**CAPITAL CREEK
PARTNERS**

Capital Creek Partners

Monthly Market Update

June 2023

Market Dashboard – as of May 31, 2023

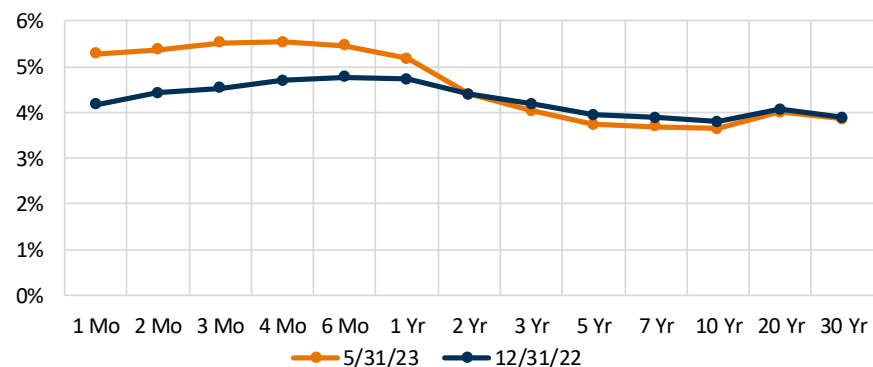
U.S. Equities	Current	MTD	YTD	LTM
Dow Jones Industrials (DJIA)	32,908.27	-3.2%	0.3%	2.0%
S&P 500	4,179.83	0.4%	9.6%	2.9%
Nasdaq 100 (NDX)	14,254.09	7.7%	30.8%	13.8%
S&P Mid Cap 400 (MID)	2,406.67	-3.2%	-0.3%	-2.7%
S&P Small Cap 600 (SML)	1,125.94	-1.8%	-2.1%	-7.3%
Volatility Index (VIX)	17.94	13.7%	-17.2%	-31.5%

International Equities	Current	MTD	YTD	LTM
Developed Markets (EFA)	70.67	-4.0%	7.7%	3.6%
Emerging Markets (VWO)	39.05	-3.0%	0.3%	-7.1%
Japan (EWJ)	59.34	0.9%	9.0%	4.3%

U.S. Industry Sectors	Current	MTD	YTD	LTM
Communications (XLC)	62.24	3.9%	30.1%	4.4%
Consumer Discretionary (XLY)	151.61	2.5%	17.7%	-0.9%
Consumer Staples (XLP)	72.67	-6.2%	-2.1%	0.1%
Energy (XLE)	76.59	-10.0%	-11.5%	-8.3%
Financials (XLF)	31.76	-4.3%	-6.7%	-8.5%
Health Care (XLV)	127.83	-4.3%	-5.5%	-1.7%
Industrials (XLI)	96.85	-3.2%	-1.0%	4.1%
Materials (XLB)	75.02	-6.9%	-3.0%	-10.7%
Real Estate (XLRE)	36.04	-4.5%	-1.7%	-15.6%
Technology (XLK)	164.28	8.9%	32.3%	18.2%
Utilities (XLU)	64.93	-5.9%	-7.2%	-10.0%

Fixed Income	Current	MTD	YTD	LTM
Bloomberg Dollar Index (BBDXY)	1,246.14	1.6%	0.0%	1.6%
7-10 Year Treasury Bonds (IEF)	98.06	-1.4%	3.3%	-2.9%
U.S. Inflation-Linked Bonds (TIP)	108.30	-1.2%	2.4%	-4.3%
Municipal Bonds (MUB)	106.37	-0.6%	1.7%	0.7%
Corporate Bonds (LQD)	107.62	-1.8%	3.4%	-2.5%
High Yield Bonds (HYG)	74.11	-1.2%	2.7%	-1.5%

U.S. Treasury Yield Curve



Commodities	Current	MTD	YTD	LTM
BBG Commodity Index (BCOMTR)	217.94	-5.6%	-11.4%	-22.5%
Crude Oil (Brent)	72.66	-9.6%	-18.8%	-14.1%
Natural Gas	2.27	-6.0%	-49.4%	-72.2%
Gold (CMX)	1,982.10	-1.8%	5.8%	4.2%
Copper (LME)	8,089.00	-5.9%	-3.4%	-14.4%
Bitcoin	27,117.10	-8.6%	61.5%	-14.7%

Note: All numbers are estimates. The data reflect total returns. Data reflect adjusted share price including dividends, splits, and fees. Please use statements as final value.

Source: Capital Creek Partners Research, Bloomberg

May/Early June Highlights

- **Artificial Intelligence Explosion:** Throughout May and early June, AI has been a primary driver of equity market direction. NVIDIA's historic earnings report on 5/25, created hundreds of billions of dollars of market cap and a feeding frenzy for AI related technology companies. The technology heavy NDX outperformed the SPX by over 700 basis points in May alone (see page 5). While skepticism abounds and valuations are full, we see US technology stocks in a new bull market with room to run on the upside. Falling inflation, the Fed on hold, and strong technical underpinnings have created a positive backdrop for US equities. However, due to the lack of support from our models we remain neutral on equities for client asset allocation purposes.
- **Debt Ceiling Resolution:** The long-feared debt ceiling driven budget negotiation between the White House and House Republicans was constructively resolved, removing a giant risk for the economy and investors. The deal passed by large majorities, is not considered especially draconian, and is a first step toward fiscal sustainability. For a supposedly politically polarized country, the result was surprisingly moderate and bi-partisan. The resulting deal is bullish for risk assets in that it not only removes a major risk, but it also showed the world that the US can deal with its fiscal problems in a reasonable way.
- **No Recession in Sight:** The "Godot Recession" just keeps getting pushed out as the housing market recovers, energy prices are falling, corporate cap-ex is strong, equities grind higher, and the labor market remains surprisingly robust. Our leading indicators still point to a recession in the next 12 months, but we are sensing something is very different with this post pandemic economic cycle.
- **Energy/Commodity Bear Market:** Commodities, led by oil and natural gas have been declining consistently for the last 12 months. Brent crude oil prices are now down a staggering 45% from the invasion of Ukraine in February of 2022. What is the opposite of AI? Energy and commodities. OPEC appears to be in disarray and supposed production cuts seem to do little to stem the decline in prices. This is very good news on the inflation front and supports our case that the defining feature of 2023 will be the trend lower in US inflation.

Market Indicators

- **Models:** Our most trusted equity model (TES) is neutral. Our Tactical Asset Allocation (TAA) model is negative on stocks, bonds, commodities, and credit. Cash is a clear overweight in our TAA model.
- **Leading Indicators:** Our best leading economic indicators are pointing to the high probability of recession over the next four quarters. This has been the case for all of 2023.
- **Cycle Monitor:** Most of our cyclical indicators are trending toward or already in recession territory. However, in May, three of these indicators flipped away from recession toward early to mid-cycle readings (see page 4).
- **Inflation:** Inflation remains well above the Fed's 2% target. However, inflation is now in a clear downtrend, falling for 10 straight months and is responding to much tighter Fed policy. The housing component of CPI and PCE is moderating quickly (see page 6). We expect inflation to continue to trend lower for the balance of 2023.
- **Volatility:** Treasury market implied volatility fell in May but remains very high relative to history. US Equity implied volatility fell further in early June and is now at the lowest levels since the equity bear market began in 1Q22.
- **Policy:** The Fed appears poised to pass on a rate hike at the June 14th policy meeting. Fiscal policy is now constrained by high inflation, divided government, and the recent budget deal.
- **Liquidity:** Liquidity remains constrained by rate hikes and QT. The recent Fed balance sheet growth in the wake of the banking crisis has been reversed. Nominal GDP continues to grow much faster than M2. A lack of liquidity remains a persistent headwind for risk assets.
- **Credit:** Credit availability is tight as lenders become conservative in the wake of recent bank failures. The Fed Senior Loan Officer Opinion Survey for April reflected tighter lending standards and weaker demand for credit across the board. In contrast, credit spreads remain remarkably well behaved.
- **US Dollar:** The Dollar mounted a counter trend rally in May, rising 2.4%. Nevertheless, with inflation coming lower and the Fed now likely on hold, a weaker dollar seems the path of least resistance.

Cycle Monitor – Trending Towards Recession

Metric	Early Cycle	Middle Cycle	Late Cycle	Recession
Overall Economic Output	Below potential, rising	Near potential, rising	Above potential, rising	Contracting
Consumption	Low, lagging income	Recovering	High, ahead of income	Falling
Capital Investment	Low as % of GDP	Rising moderate as % of GDP	High as % of GDP	Falling
Residential Investment	Low as % of GDP	Rising moderate as % of GDP	High as % of GDP	Contracting
Vehicle Sales	Low	Moderate, rising	Peaking, high	Past peak, falling
Price Inflation	Below central bank target, stable	Below CB target, rising	At/Above CB target	Falling
Wage Inflation	Low, stable	Moderate, rising	High	Falling
Private Credit Formation	Low, starting to rise	Rising in line with output	Rising faster than output	Falling
ISM New Orders	Improving	Mid 50s / Moderate	Past peak, falling	Below 50, falling
Personal Savings Rates	High relative to income	Starting to decline	Low relative to income	Rising vs. income
Unemployment Rate	Well above NAIRU	Above NAIRU	Above or below NAIRU	Rising sharply
Unemployment Claims	Past peak	Falling Sharply	Trending lower	Rising
Consumer Confidence	Low	Moderate	Exuberant	Falling

Metric	Early Cycle	Middle Cycle	Late Cycle	Recession
EPS Revision Ratios	Downgrade cycle, improving trend	Upgrade cycle, improving trend	Second derivative falling	Downgrade cycle, falling trend
Corporate Margins	High	High/Peaking	Declining	Low
Credit Spreads	Wide, contracting	Tight, stable	Past cyclical trough	Wide, unstable
Aggressive Issuance	Low as share of total	Moderate as share of total	High as share of total	Nonexistent
M&A Activity	Low	Moderate	High as share of total	Nonexistent
Yield Curve	Rates low, curve steep	Rates rising, curve flattening	Rates high, curve flat	Rates falling, curve steepening
Volatility	Vol high, skew falling	Vol low, skew low	Vol starting to rise, skew rising	Vol high, skew high

Implied Cycle

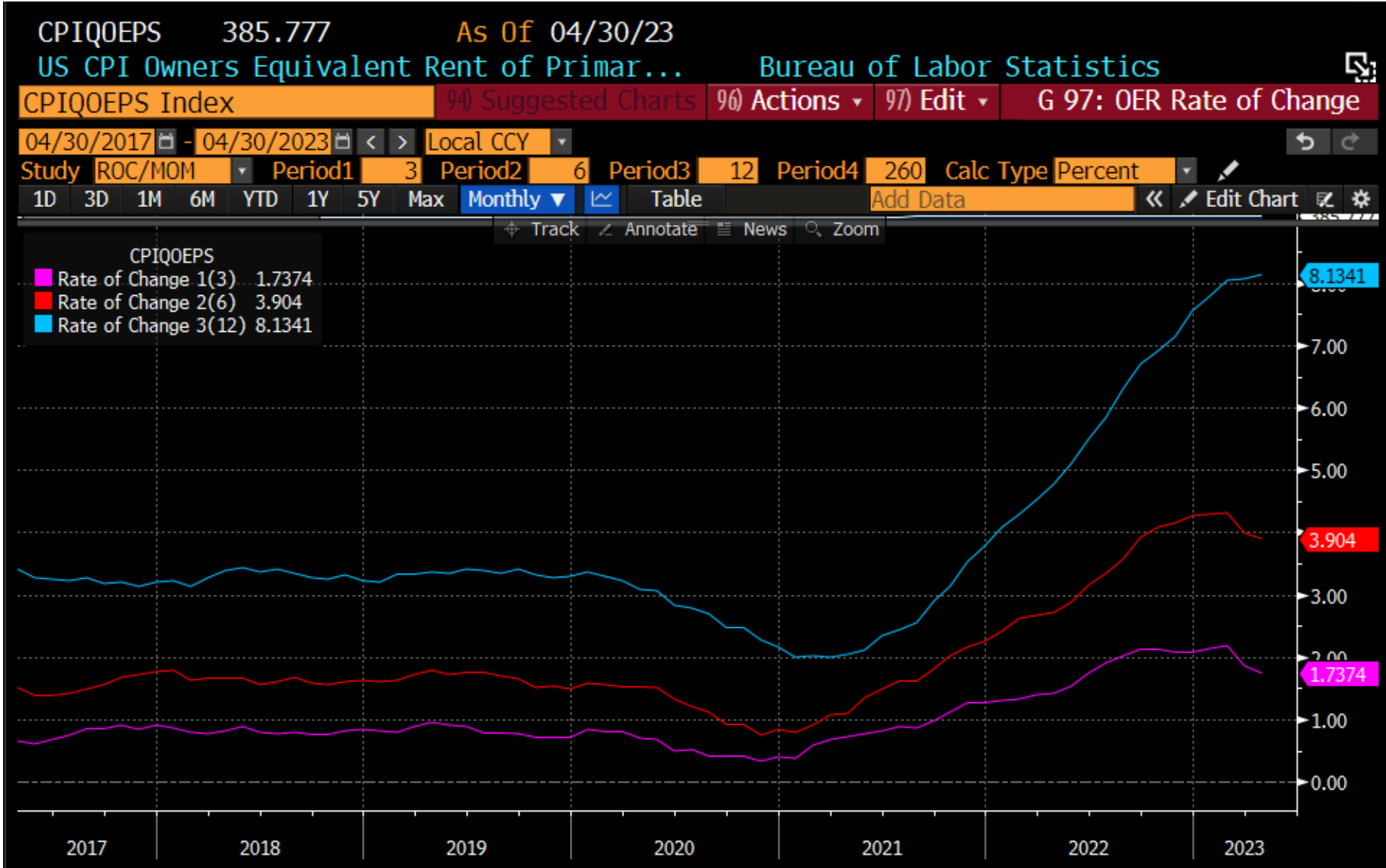
Current macro indicators suggest the economy is trending towards recession

Exuberance over AI has driven massive tech outperformance in 2023



Source: Capital Creek Partners Research; Bloomberg

Owners' Equivalent Rent: 3 & 6 Month Rates of Change are beginning to fall



Capital Creek Partners Research; Bloomberg

Commodities have broken down into a bear market



Source: Capital Creek Research, Bloomberg

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