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WEEKLY MARKET RECAP | January 17, 2023

Week in Review

Equity Markets:

All major indices finished positive for the week. The S&P 500 continued its reversal following three negative weeks to close out 2022. The index was up 2.7% for the week. The market sits ~17% below the previous high that occurred over a year ago. Earnings season picked up steam last week with some of the major banks reporting earnings.

So far, 29 of the S&P 500 companies have reported earnings. 79% of those have beaten earnings estimates and 68% have beaten revenue expectations, according to FactSet. It is still very early but the results so far look better than expected. Analysts are expecting earnings to decline 3.9%, which would be the first negative quarter since the pandemic. Analysts have also begun to lower earnings estimates for Q1 2023 and Q2 2023, according to data compiled by FactSet.

Fixed Income Markets:

Bond prices rallied following the CPI report meeting expectations, causing yields to drop. The 10-year Treasury closed the week at 3.5%, down nearly 75 basis points from its peak in October. The Fed Funds futures market has priced in a 25-basis point increase by the Fed when they meet on February 1st. This would be a significant shift following four consecutive ¾ point hikes and the most recent hike of 50-basis points.

The Bloomberg US Aggregate Bond Index finished the week up by 0.8%, continuing its recovery from a tough year. Year to date the index is up 3.4%.

Economic:

The CPI report met expectations across the board. The headline number saw a monthly decline of 0.1% and 6.5% year-over-year. Core CPI has cooled but remains stubborn. Excluding food and energy, the index was up 0.3% in December and 5.7% on an annual basis. The preliminary read on the University of Michigan Consumer Sentiment Index surprised to the upside. It came in at 64.6, beating the consensus estimates compiled by Bloomberg of 60.5.

Looking Ahead

Equity Markets:

Fundamentals will likely be the catalyst for a major market move. 2022 was dominated by inflation and monetary policy which caused a sustained drawdown and compressed valuations to levels not seen in nearly a decade. Companies have remained relatively strong and appear to have weathered a tough storm but mild weakness is coming to light in Q4 earnings. Earnings estimates have continued to be revised lower. We believe corporations are on solid footing, and the consumer remains fairly healthy, so despite an earnings slowdown, it is likely to be mild and not long-lasting.

We believe investors should stay disciplined because we are in the midst of weakness, and historically, the market has begun its recovery before the environment starts to improve.

Fixed Income Markets:

The fixed-income markets have stabilized so far this year, which is a welcomed sight following the volatility of 2022. We do believe volatility is likely to remain slightly elevated until the Fed fully pauses. There has been a significant drop in yields, and we do believe we have seen the top end of the rate cycle, but a short-term jump in yields back to the 4% range is possible.

Overall, we are positive about the current fixed-income market. The Fed is nearing the end of rate hikes, and coming off of one of the worst year for bonds in history, we believe now is not a good time to abandon the asset class. Fixed-income investors now have the ability to receive an acceptable return given the jump in yields.

Economic:

The week will get started with the Empire Manufacturing Index. The Producer Price Index release on Wednesday will round out the inflation picture for December. The housing market will dominate the reports for the remainder of the week, which will be timely considering the largest contributor to the Core CPI reading was the housing sector. The NAHB Housing Index, housing starts, existing home sales, and building permits are expected to continue their softening trend.

**** *See Important Disclosures on following page*

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