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WEEKLY MARKET RECAP | February 6, 2023

Week in Review

Equity Markets:

Despite ending lower on the final trading day of the week, the S&P 500 remained positive, finishing the week up 1.6%. The weakness on Friday followed a hotter-than-expected non-farm payroll report. The spread between growth and value grew again this week, following a trend that started at the turn of the new year. The NASDAQ finished the week up over 3%. Year-to-date the NASDAQ has outperformed the DJIA (Dow Jones Industrial Average) by a wide margin, up nearly 15% compared to only 2.3% for the DJIA.

We are officially halfway through earnings season. 50% of S&P 500 companies have reported earnings. 70% of companies have beaten earnings estimates while 61% have beaten revenue expectations, according to FactSet. Both of these are below their respective five- and 10-year averages. For now, the S&P 500 is expected to see an earnings decline of 5.3% in Q4. If this holds true it will be the first negative quarter for earnings growth since Q3 of 2020.

Fixed Income Markets:

The FOMC pushed the policy rate up by 0.25% to a target range of 4.5-4.75%. This marks the second consecutive meeting where they have slowed the pace of the hike. Chairman Jerome Powell stated in his press conference that policymakers' main focus is to ensure they win the inflation fight. Fed policy has now shifted from the pace of hikes to the extent of hikes. We will likely continue to see 25 basis point hikes until the Fed believes they have reached a restrictive enough level to be confident that inflation is ultimately under control.

The bond market reacted very little to the news, as the Fed's move met market expectations. The 10-year treasury ended the week with a yield of 3.53%, essentially flat.

Economic:

Friday's non-farm payrolls surprised to the upside by a wide margin. The economy added 517,00 jobs in January, blowing away economist's estimates of 190,000. The unemployment rate dropped to 3.4%, the lowest level in over 50 years. This report came after the FOMC decision and further supports the plan to continue rate hikes until they see the labor market cooling and a further decline in inflation. The ISM Services PMI came in at 55.2, moving back into expansion territory. S&P Global's Manufacturing PMI remained in contraction, with a reading of 46.8.

Looking Ahead

Equity Markets:

As recessionary fears continue to increase, it is important to look at the fundamentals and the expectations of the market. Analysts have continued to decrease their earnings expectations, and have reduced their earnings estimates for Q1 2023 by 3.3%. This is greater than the five, 10, 15, and 20-year averages according to data collected by FactSet. We often speak of the market troughing as expectations are near the worst. This includes earnings expectations, economic data, and sentiment.

The market looks out and is discounting many months, if not a year, in advance. The markets don't operate on a quarterly basis like many investors try to focus on. Investors with a thoughtfully developed investment plan, that assists them in staying committed, tend to be rewarded in the long run. During times of volatility, a systematic rebalancing process can help with selling assets that have outperformed and purchasing lagging assets that could present long-term value opportunities.

Fixed Income Markets:

The Fed has eased the policy aggressiveness in the past two meetings, but they have yet to indicate when their rate hiking cycle will end. We believe they are nearing the end and more importantly, the heavy lifting occurred last year. This is constructive for the bond market as we move later into the year. We still believe that a short-term move up in yields can occur and if rates approach the 4% range again, we see that as a good opportunity for fixed-income investors. Where yields currently sit, bonds have the potential to play the pivotal role of downside protection in a diversified portfolio. This factor will become more important if the economy ultimately falls into a recession.

Economic:

Following a busy week for economic data, this week will be relatively light. The preliminary University of Michigan Consumer Sentiment Index will be released. A consumer credit reading will be timely as consumer spending began to show weakness at the end of the year. The Mortgage Bankers Association will release its Mortgage Application Index. We will also hear from multiple members of the Federal Reserve and gain more insight into potential policy action going forward as we see economic conditions weaken.

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

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