



# PRECISION

## Financial Services, Inc.

*Designed to Fit Your Needs*

### February Market Update

Hope you are doing well. The old saying is as follows: As goes January, so goes the year. That adage held up in 2022, with bears in control of U.S. equities starting last January, and we can hope that same logic holds up in 2023—only with the bulls in charge!

January set a much more optimistic tone for the U.S. equity and financial markets versus recent months, with more of a risk-on sentiment fueling rallies in major U.S. equity indexes. Market bulls are cheering lower inflation data in recent reports.

For the month of January, the S&P 500 added 6.18%, the Nasdaq tacked on 10.7%, and the Dow Jones Industrial Average rose by 2.83%.

#### Inflation Softening

The most recent Consumer Price Index (CPI) data for December showed a year-over-year rise of 6.5%, in line with analyst consensus. This was the smallest 12-month increase since October 2021.

Adding to the easing inflation picture, Core Personal Consumption Expenditures (PCE) eased in December, too, showing a 4.4% annual rise for December. This was also the smallest 12-month increase since October 2021. Keep in mind that PCE is the Federal Reserve's preferred inflation gauge.

U.S. equities loved the softening inflation data, but of course, inflation remains an issue. We see it every time we go to the supermarket, as food prices remain 11.8% higher year-over-year.

#### February Fed Meeting: “Ongoing” Rate Hikes

As expected, the Federal Reserve called for a 25-basis-point rate hike at its February 1st meeting, with the federal funds rate now at a target range of 4.5%-4.75%. This is the highest it has been since October 2007.

However, Federal Reserve Chair Jerome Powell stated that the Fed expects “ongoing” increases to the key overnight lending rate. U.S. stock indexes didn’t seem to mind, though: the S&P 500 finished in the green for the day on February 1st.

## **Labor Market**

December non-farm payrolls data showed a strong labor market, with 223,000 jobs created versus expectations of 200,000. The unemployment rate also ticked lower, falling to 3.5%.

December's gain of 223,000 jobs was down from the 263,000 gain in November, which could please the Fed—indicating that its rate hikes have begun to cool the economy.

A continuance of the decline in job creation in January could further inspire market participants to look for a tamer Federal Reserve moving forward.

## **Earnings Season**

January featured Q4 earnings season getting underway. Corporate earnings results have been rather dismal to this point, with 29% of S&P 500 companies having reported earnings as of the end of January.

69% of reporting companies have actual earnings per share (EPS) above estimates to date, according to data from Factset.

## **The Consumer**

Consumer spending weakened towards the end of last year, with data showing a 0.2% decline in December and a November data revision indicating further weakness.

Retail sales for December also showed weakness, falling by 1.1%—slightly more than economic forecasts of 1.0%. Gasoline and department store sales showed particular softness in the report.

The soft consumer only makes logical sense, with inflation persisting for an extended period and the cost of necessities like food and shelter remaining elevated.

## **Government Bond Yields**

Government bond yields fell in January, amid expectations for a more dovish Fed going forward and renewed risk-on sentiment.

The 10-year US Treasury Note yield declined in January, with recent declines in CPI and Producer Price Index (PPI) noted as catalysts.

## GDP Rises

Recession? Fourth quarter GDP grew at a 2.9% year-over-year rate, higher than most expectations. The rise in quarterly GDP marked the second consecutive quarter of positive expansion, dwarfing the broader expectations of an impending recession.

Looking at the entire year of 2022, GDP rose 2.1%, which may seem counterintuitive given higher interest rates and inflation. The data shows the growth, however. Americans have been resilient!

## An Overview: Putting January Together

January showed us constructive economic data on several fronts and featured a different and improved sentiment versus the better part of the last year. The Nasdaq had its best January since 2001, a welcome way to start 2023.

The slightly softening labor market data leaves the door open for a more dovish Fed narrative going forward; however, the Fed dampened expectations of a pause in rate hikes at the February 1st Fed meeting. Time will tell.

With that overview noted, please let your advisor know if you have any questions or needs they are always happy to offer insights and guidance.

Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by PFS Partners, LLC ("PFS"), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from PFS. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. PFS is neither a law firm, nor a certified public accounting firm, and no portion of the newsletter content should be construed as legal or accounting advice. A copy of PFS's current written disclosure Brochure discussing our advisory services and fees is available upon request. Please Note: If you are a PFS client, please remember to contact PFS, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. PFS shall continue to rely on the accuracy of information that you have provided. Please Note: IF you are a PFS client, Please advise us if you have not been receiving account statements (at least quarterly) from the account custodian.

This material was developed and produced by Levitate to provide information on a topic that may be of interest. Levitate is not affiliated with any other named entity.

