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.