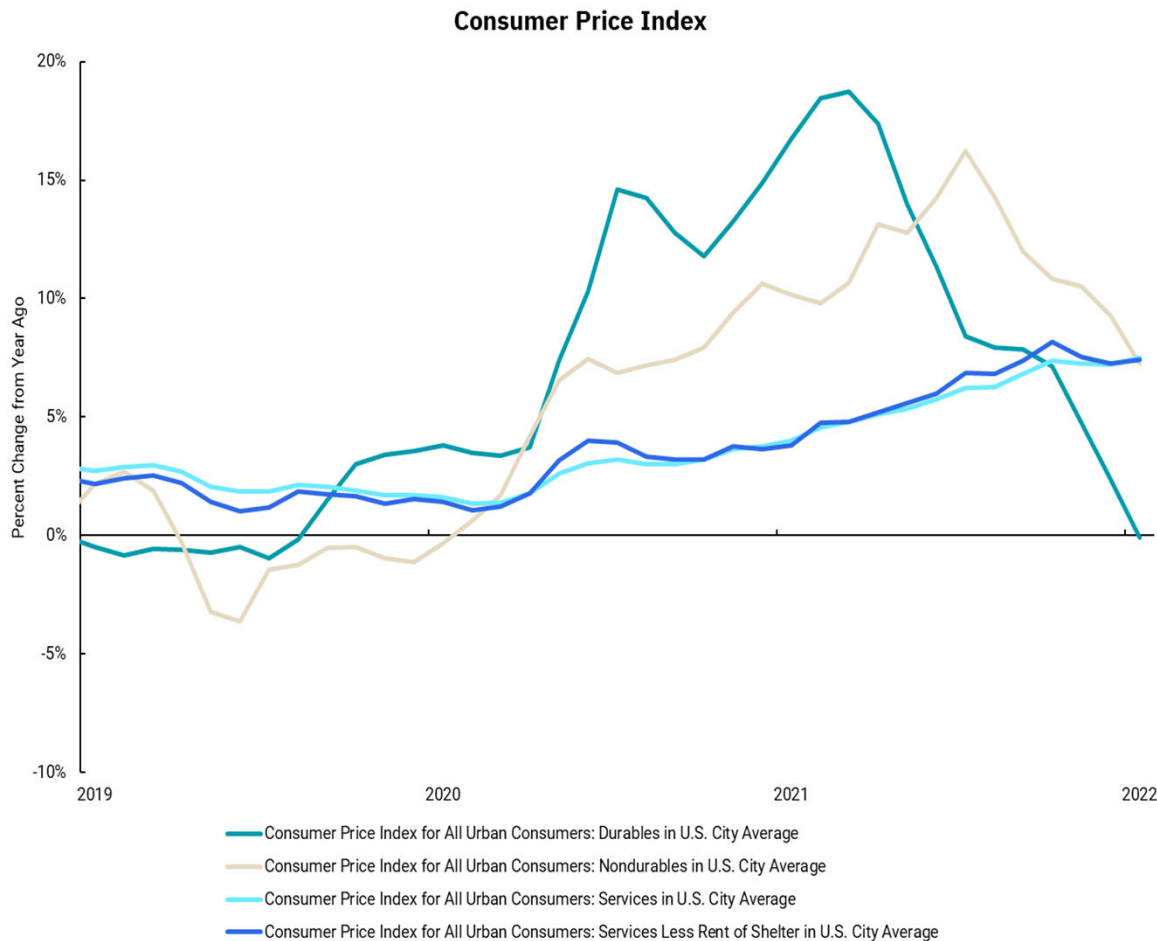


Weekly market update



Chart of the week (Jan. 13, 2023)



The Oxford dictionary defines inflation as “a general increase in prices and a fall in the purchasing power of money”. A relatively simple concept by definition, but defining inflation in an economy as complex as the U.S. or globally is subject to many perspectives, iterations and meanings.

When approaching monetary policy, the Federal Reserve and economists have long known there are areas of inflation that can be highly volatile. These include cyclical prices like food and energy, areas where price changes are longer lasting, and secular areas like rents and wages. Monthly inflation reports such as the Consumer Price Index (CPI) and the Producer Price Index (PPI) break down inflation between the headline number including all measures of inflation, and the core number, which is inflation measured on the more secular areas of the economy but excludes food and energy. Between the two, core inflation has been the primary driver of monetary policy decisions.

The overall good news for the Fed, the economy, and U.S. consumers is that inflation is slowing. The most recent CPI report showed headline inflation *declined* by 0.10%; that’s disinflation, not inflation. Yet the core inflation rate increased 0.30% as rents remain in an upward trend. We have seen price decreases in energy, and while food costs remain elevated, other areas such as apparel, home goods and electronics also show price moderation. The hard part is that wages and rents still present a problem, and these areas will be of primary importance to the Fed.

Our conclusion? The slowdown in overall inflation means the Fed can continue to slow the pace of their interest rate increases. Their most recent move was 0.50% instead of the 0.75% of the previous four meetings and we look for 0.25% in their Feb. meeting. The Fed is still targeting 5-5.25%, and we think they will get there, but the pace of interest rate increases is slowing and inflation will continue to fall.

Weekly market update



Commentary (Jan. 13, 2023)

Domestic Equities

- U.S. stocks continued to rise this week on encouraging inflation data.
- Data out Thursday showed consumer price inflation slowed from Nov. to Dec. The headline number was in-line with expectations, but “super core” inflation, which removes energy and housing and is closely watched by the Fed, rose by much less than expected.
- Earnings season kicked off this week, with several large banks reporting Friday. Despite being mostly in line with expectations, the reports were somewhat ominous, with most banks setting aside reserves for potential loan losses in case of a recession. Investment banking and consumer mortgage businesses slowed in the face of higher rates, but trading revenue rose thanks to increased market volatility.
- The auto sector sold off on Friday after Tesla announced significant price cuts on some of its models to help spur demand.

Bonds

- U.S. Treasuries yields fell across the curve (3M-30Yr), with market participants anticipating smaller rate hikes from the Federal Reserve following weaker CPI data for Dec. The Treasury market also benefitted from strong auction results, with yields stopping below market expectations at the 3M, 10- and 30-Year auctions this week.
- The broad investment grade market was positive as measured by the Bloomberg US Aggregate Bond Index, with the market benefiting from lower U.S. Treasury yields and narrowing credit spreads.
- The cost of insuring credit risk across the corporate market continued to fall, with the spread on generic IG CDX 5-Year falling to the lowest level since Apr. 2021.
- 3-Month LIBOR made a 14-year high, with rates exceeding the yield reached during the collapse of Lehman Brothers in 2008.

International Equities

- Investor sentiment appears to be on a more positive trajectory to start the year due to a sooner-than-expected opening of China’s economy and signs that global inflation pressures might be waning.
- Foreign developed markets delivered a strong performance, with nearly every market across the European and Pacific regions posting gains. Sentiment towards Europe has shifted as warmer winter weather has helped the region avoid an energy crisis, and the reopening of China is benefiting Europe’s luxury goods manufacturers.
- Emerging markets moved higher, led by strong gains in markets throughout Asia and Latin America. South Korean stocks rallied this week despite its central bank interest rates, but policymakers signaled that this would be the last hike for the current cycle, which bolstered investor sentiment.

Economics

- The Bureau of Labor Statistics reported that the Consumer Price Index (CPI-U) rose 6.50% over the prior 12 months, a decline of 0.60% from the prior report. In Dec., the index fell 0.10% month over month. Core CPI, which excludes food and energy, rose 0.30% in December, primarily due to increasing costs for shelter.
- The Federal Reserve reported that the annualized growth rate of consumer installment debt in Nov. was 7.10%, a decline of 0.30% from the prior month. The decline was due to lower growth of non-revolving debt, although revolving debt did increase.
- The Producer Price Index, industrial production, and retail sales reports will be released on Wednesday.

Weekly Market Update

For Week Ending January 13, 2023

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	34,302.61	2.0%	3.5%	-3.0%
S&P 500 Index	3,999.09	2.7%	4.2%	-12.8%
NASDAQ	11,079.16	4.8%	5.9%	-24.5%
S&P 400 Midcap Index	2,580.91	3.7%	6.2%	-6.0%
S&P 600 Smallcap Index	1,238.88	4.5%	7.1%	-8.9%
MSCI EAFE	7,047.13	4.3%	7.0%	-9.4%
MSCI Emerging Markets	523.52	4.2%	7.7%	-16.1%
Bloomberg US Agg	2,104.91	0.9%	2.7%	-9.4%
Bloomberg Municipal 5 Yr	475.72	0.8%	1.5%	-3.0%
Bloomberg US Corporate	3,069.92	1.4%	3.4%	-11.4%
Bloomberg Gbl Agg ex US Hdg	530.18	0.5%	1.7%	-7.9%
Bloomberg High Yield	2,269.98	1.6%	3.8%	-7.2%
MSCI US REIT Index	2,027.38	4.1%	5.9%	-18.3%
Bloomberg Commodity Index	243.64	3.3%	-0.9%	10.7%

Key Rates

	Last Price/Yield	Prior Week	Year End	Year Ago
Fed Funds Target	4.50%	4.50%	4.50%	0.25%
3-Month Treasury	4.57%	4.58%	4.34%	0.11%
1-Year Treasury	4.66%	4.67%	4.69%	0.44%
2-Year Treasury	4.23%	4.25%	4.43%	0.89%
5-Year Treasury	3.61%	3.70%	4.00%	1.47%
7-Year Treasury	3.56%	3.63%	3.97%	1.64%
10-Year Treasury	3.50%	3.56%	3.87%	1.70%
30-Year Treasury	3.61%	3.69%	3.96%	2.04%

Consumer Rates

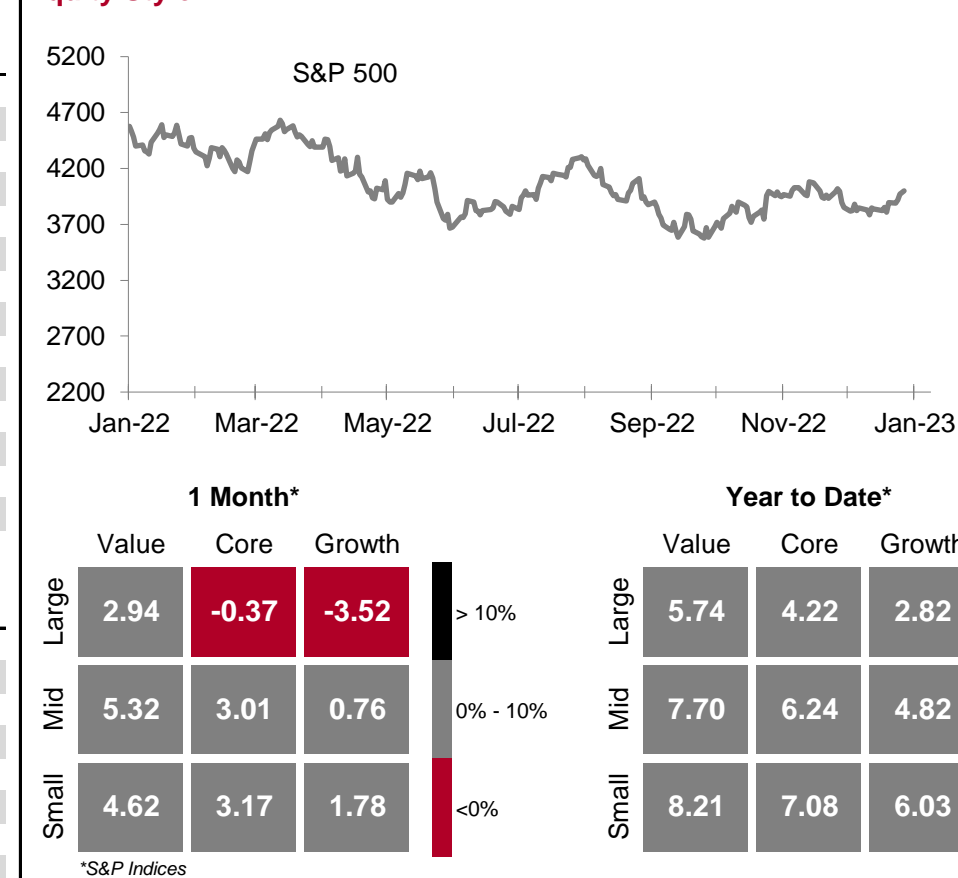
30-Year Mortgage	6.40%	6.47%	6.66%	3.51%
Prime Rate	8.25%	7.75%	4.00%	4.00%
3-Month LIBOR	4.79%	4.81%	4.77%	0.24%

Commodities

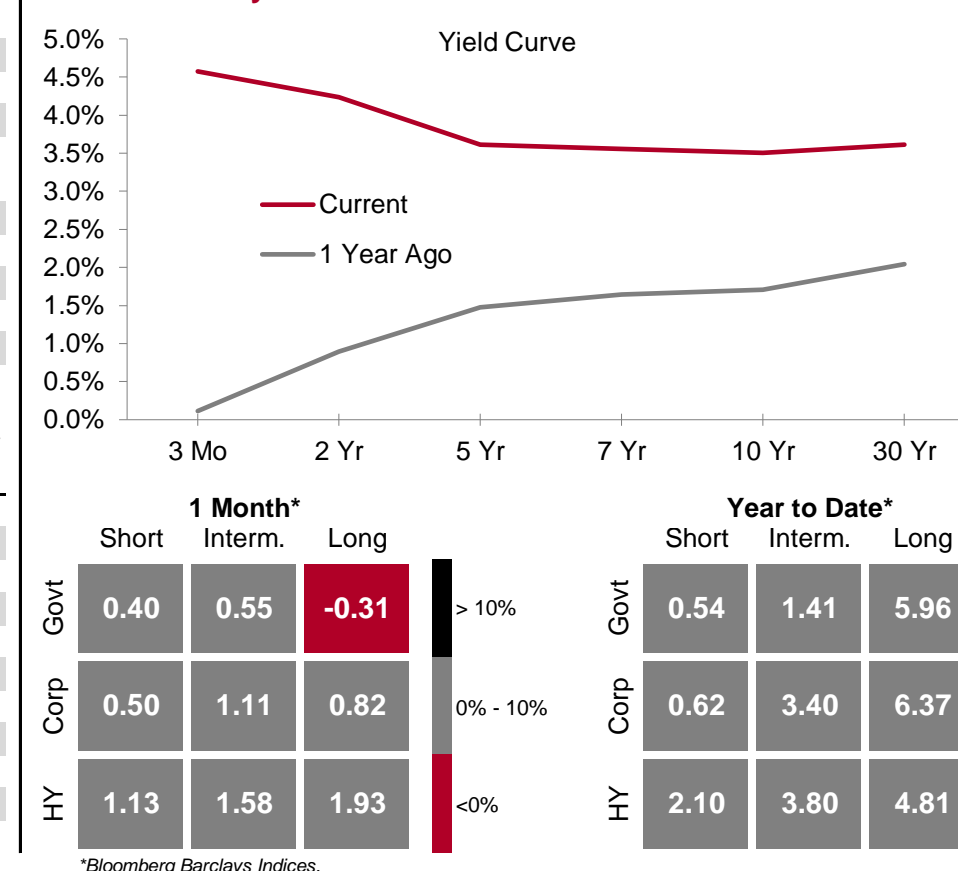
Gold	1,920.23	1,865.69	1,824.02	1,822.54
Crude Oil (WTI)	79.86	73.77	80.26	73.42
Gasoline	3.37	3.33	3.20	3.39
Natural Gas	3.42	3.71	4.48	4.29
Copper	4.22	3.91	3.81	4.49

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	17.59	19.71	4.58	2.18
S&P 500	17.77	19.37	4.01	1.73
S&P 500 Value	16.88	18.96	2.80	2.07
S&P 500 Growth	18.71	19.78	6.79	1.40
NASDAQ	16.82	16.66	3.88	2.13
S&P Midcap 400	14.54	15.05	2.36	1.69
S&P Smallcap 600	14.13	15.25	1.86	1.49
MSCI EAFE	12.89	14.57	1.80	3.36
MSCI Emerging Markets	12.46	11.59	1.63	3.25

Equity Style



Fixed Income Style



Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	6.5%	7.0%
CPI Core Inflation	5.7%	5.5%
Personal Consumption Exp (PCE) Core	4.7%	4.8%
Jobs		
Unemployment Rate (U3)	3.5%	3.9%
Broader Unemployment Rate (U6)	6.5%	7.3%
JOLT Survey (in millions)	10.46	10.92
Jobless Claims (000's)	205	238
Change in Non-Farm Payroll (000's)	223	588
Average Hourly Earnings (Y/Y % Change)	4.6%	4.9%
Consumer & Spending		
Consumer Confidence (Conf Board)	108.3	115.2
Consumer Spending (\$ Bil)	17,828	16,558
Consumer Credit (\$ Bil)	4,757	4,408
Retail Sales (\$ Bil)	689	648
Housing		
Housing Starts (000's)	1,427	1,706
Case-Shiller Home Price Index	298.99	273.69
U.S. Productivity		
Real Gross Domestic Product (\$ Bil)	20,055	19,673
Quarter over Quarter Change	3.2%	2.7%
Year Over Year Change	1.9%	5.0%
ISM Manufacturing	48.40	58.80
Capacity Utilization	79.66	78.98
Markit US Composite PMI	45.00	57.00
U.S. General		
Leading Economic Indicators	113.5	118.8
Trade Weighted Dollar Index	122.2	115.5
EUR / USD	1.08	1.15
JPY / USD	127.87	114.20
CAD / USD	0.75	0.80
AUD / USD	0.70	0.73

S&P 500 Sector Returns

	1 Month	YTD
Communication Services	2.53%	8.18%
Consumer Discretionary	0.15%	8.15%
Materials	1.89%	7.91%
Real Estate	1.21%	7.01%
Financials	3.50%	5.51%
Information Technology	-3.38%	4.86%
Industrials	1.73%	4.29%
Energy	5.27%	2.69%
Utilities	-1.07%	1.16%
Consumer Staples	-1.71%	0.29%
Health Care	-2.70%	-0.29%

Source: Bloomberg

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