*In this month's recap: Investors were in a buying mood thanks to moderating inflation, a better-than-feared earnings season, and healthy economic data.*

# Monthly Economic Update

*Presented by **DSA Financial Group**, February 2023*

## U.S. Markets

Stocks rallied in January as moderating inflation, a better-than-feared earnings season, and healthy economic data put investors in a buying mood.

For the month, the Dow Jones Industrial Average rose by 2.83 percent, the Standard & Poor's 500 Index jumped by 6.18 percent, and the Nasdaq Composite vaulted by 10.68 percent.[1]

## Shift in Sentiment

The stock market opened the new year the way it ended the previous year, moving lower with high-growth names bearing the brunt of selling. Particularly troublesome to investors was the continued strength of the labor market, which heightened worries that the Fed would hike rates higher for longer to bring inflation to its target rate of 2.0 percent.

But market sentiment took a sharp U-turn after another cooling consumer inflation number reinforced the disinflationary trend of the last six months. Suddenly, investors appeared to adopt a different view of the future–one characterized by continued disinflation, a rate hike cycle nearing its end, and a fading probability of a near-term recession.[2]

## The Power of Earnings

Corporate earnings provide some much-needed support for the rally. Investors were looking for insights to gauge the state of the U.S. economy through corporate reports and the guidance that management was offering on forward earnings prospects.

As of January 27th, with 29 percent of the companies comprising the S&P 500 Index reporting, 69 percent reported earnings above Wall Street estimates, less than the five-year average of 77 percent but strong enough to bolster confidence.[3]

## A Winding Road Higher

The march toward higher stock prices did not follow a straight line. The month's trading was choppy, with stretches that saw the resurfacing of recession fears and anxieties over future Fed rate hikes. For instance, stocks retreated midmonth on weak retail sales and manufacturing data that raised concerns that the Fed might have gone too far in raising rates.

As the month ended, stocks wavered ahead of a busy week for earnings and the scheduled Fed meeting. But they regained their footing on the final day of trading to close out a strong month.

## Sector Scorecard

Most industry sectors ended higher in January, including Communications Services (+14.77 percent), Consumer Discretionary (+15.13 percent), Energy (+2.81 percent), Financials (+6.81 percent), Industrials (+3.71 percent), Materials (+8.97 percent), Real Estate (+9.91 percent), and Technology (+9.26 percent). Three sectors posted losses: Consumer Staples (-1.09 percent), Health Care (-1.83 percent), and Utilities (-2.00 percent).[4]

## What Investors May Be Talking About in February

In the month ahead, investors are expected to dig into the details of the January inflation report scheduled for release on February 14.[5]

Investors cheered when the December update showed that inflation dropped again, confirming a six-month downtrend.

While the cost of goods has dropped over that time, the cost of services has stubbornly remained high.

In gauging how the Fed is viewing inflation progress, investors may keep an eye on the labor market, a major contributor to service costs. The Fed has expressed that a tight labor market, with its attendant wage gains, places upward pressure on inflation.

Consequently, wage trend reports, including the monthly Employment Situation Summary and the Atlanta Fed's monthly Wage Growth Tracker, along with the services inflation number, may become the real headlines going forward.

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## TIP OF THE MONTH

*If you're financing a new car, look for the best interest rate before setting foot in the dealership. It could be to your advantage to take a cash rebate and get a loan elsewhere.*

## World Markets

The MSCI EAFE Index gained 8.05 percent, sparked by falling inflation, an improving economic outlook in Europe, and the continued reopening of China.[6]

European markets saw solid gains, led by Italy, which picked up 12.04 percent. France tacked on 9.40 percent, Germany rose by 8.65 percent, and the U.K. advanced by 4.29 percent.[7]

On the Pacific Rim, China's Hang Seng Index rose by 11.57 percent, and Australia's ASX 200 climbed by 6.22 percent. Closest to the U.S., Mexico's IPC All-Share rallied 12.59 percent.[8]

## Indicators

**Gross Domestic Product:** The nation's economy grew at a 2.9 percent annualized rate in the fourth quarter. This represented a slowdown from the 3.2 percent expansion in the third quarter, though it is a tick higher than the 2.8 percent consensus estimate by economists.[9]

**Employment:** Employers added 223,000 jobs in December, while wage growth slowed to a 0.3 percent gain from the previous month and 4.6 percent from a year ago. The unemployment rate fell to 3.5 percent.[10]

**Retail Sales:** Retail sales fell by 1.1 percent in December, while November sales were revised downward. It was the second consecutive month of month-over-month declines and the largest contraction in a year.[11]

**Industrial Production:** Industrial production declined by 0.7 percent, led by a 1.3 percent decline in manufacturing output. Output by the nation's factories, mines, and utilities fell by 1.7 percent on an annualized basis in the fourth quarter.[12]

**Housing:** Housing starts dropped by 1.4 percent in December, though single-family housing starts rebounded by 11.3 percent.[13]

Sales of existing homes fell for the 11th consecutive month, slipping by 1.5 percent in December. For the full year of 2022, sales declined by 17.8 percent–the weakest annual result since 2014.[14]

New home sales rose by 2.3 percent, making it the third consecutive month of increases, though 2022 sales fell to their lowest level in four years.[15]

**Consumer Price Index:** The rise in consumer prices slowed for the sixth month straight, falling by 0.1 percent month over month and decelerating to a 6.5 percent increase from a year ago. Core prices (excluding energy and food) rose by 5.7 percent, an easing from November's 6.0 percent year-over-year jump.[16]

**Durable Goods Orders:** Orders for long-lasting goods rose by 5.6 percent in December–well above the 2.4 percent forecast.[17]

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QUOTE OF THE MONTH

*"Don't try to solve serious matters in the middle of the night."*

*PHILIP K. DICK*

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## The Fed

Minutes from December's meeting of the Federal Open Market Committee (FOMC) reflected concerns that investors' hopes of near-term easing in short-term rate hikes could make the Fed's job of combating inflation more difficult.[18]

These minutes also indicated that additional rate hikes are likely, at least through the spring, with any potential cuts not expected to occur until sometime in 2024.

Fed officials welcomed the recent cooling in monthly inflation numbers but would require more sustained progress before they felt confident that inflation was under control.[18]

| **MARKET INDEX** | **Y-T-D CHANGE** | **January 2023** |
|---|---|---|

| | | |
|---|---|---|
| DJIA | 2.83% | 2.83% |
| NASDAQ | 10.68% | 10.68% |
| S&P 500 | 6.18% | 6.18% |

| BOND YIELD | Y-T-D | January 2023 |
|---|---|---|
| 10 YR TREASURY | 3.53% | -0.35% |

Sources: Yahoo Finance, January 31, 2023.

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

## THE MONTHLY RIDDLE

*What can you fill with empty hands?*

*LAST MONTH'S RIDDLE: I am the center of gravity, and part of every victory. I am clearly seen in the middle of a river. Three are in love with me and I have three associates in vice. What am I?*

*ANSWER: The letter V.*

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