

February 6, 2023

Weekly Viewpoint

Bear Market Rally or the Start of Something Bigger?

Performance for Week Ending 2/3/2023

The Dow Jones Industrial Average (Dow) finished off 0.15%, the Wilshire 5000 Total Market IndexSM (Wilshire 5000SM) added 1.84%, the Standard & Poor's 500 Index (S&P 500) gained 1.62% and the Nasdaq Composite Index (NASDAQ) tacked on 3.31%. Sector breadth was positive with 8 of the 11 S&P sector groups closing higher. The Communication Services sector (+5.28%) was the best performer followed by Technology (+3.75%) and Consumer Discretionary (+2.25%). On the downside Energy (-5.94%) led the way followed by the Utilities (-1.49%) and Healthcare (0.10%) sectors.

Index*	Closing Price 2/3/2023	Percentage Change for Week Ending 2/3/2023	Year-to-Date Percentage Change Through 2/3/2023
Dow	33926.01	-0.15%	+2.35%
Wilshire 5000	41385.36	+1.84%	+8.70%
S&P 500	4136.48	+1.62%	+7.73%
Nasdaq	12006.96	+3.31%	+14.72%

Market Observations: 1/30/23 – 2/3/23

The S&P 500 finished the week higher, the fourth gain in the past five weeks. Driving the gains were signs that inflation pressure continues to ease, the labor market remains resilient, and speculation the Fed is close to halting its rate hiking campaign. On Friday, the Labor Department reported that nonfarm payroll during January soared by 517K well ahead of the median forecast of 188K additions. The December additions were also revised to 260K, up from the original estimate of 223K. The unemployment rate dipped to 3.4%, the lowest level in over 50 years. Average hourly earnings expanded at a 4.4% year-over-year pace, down from 4.8% in December. In another sign wage pressure are easing, the Employment Cost Index (ECI)—which captures employers' labor costs by measuring wages and benefits paid to workers—rose by 1% during the final quarter of 2022 down from 1.2% during Q3. Technicals were also in play last week with the S&P 500 generating a "Golden Cross" signal. A Golden Cross occurs when the shorter term 50-day moving average moves above the 200-day moving average.

The Golden Cross is often viewed as a bullish development as it suggests a change in the markets trend and has historically foreshadowed a period of upward momentum – stay tuned.

FOMC Meeting: As expected, last week's Fed meeting ended with a 25-basis point hike in the fed funds rate to a range of 4.50-4.75%. While the market's initial reaction to the Fed news was negative, as investors were likely focused on the after-meeting statement that said the Fed "anticipates that ongoing increases in the target range will be appropriate." Most investors were anticipating that the Fed would hike just one more time, however the plural "increases" implies that there will be at least two more rate hikes this year. The policy statement also noted that the "extent" of future increases will be dependent on "the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments." In other words, future rate hikes will be data dependent. Stocks then recovered as the Fed appeared to soften its characterization of inflation, acknowledging that inflation has "eased somewhat" but again noting that it "remains elevated." The view on the rest of the economy was mostly unchanged, with the statement noting that job gains "have been robust" and that "recent indicators point to modest growth in spending and production." During the press conference Chairman Powell said he still sees a path toward the Fed's inflation goal without big economic downturn (i.e. a soft landing), adding that the "disinflation process has started," a suggestion that the aggressive tightening cycle over the past year is starting to have its desired effect of reducing the pace of price growth.

Global Soft Landing? The International Monetary Fund (IMF) raised its global economic growth outlook for the first time in a year, prompted by resilient US spending and China's reopening. The IMF now sees global gross domestic product (GDP) expanding by 2.9% in 2023, from a previous outlook of 2.7%. While that's a slowdown from a 3.4% expansion in 2022, the IMF said it expects growth will bottom out this year and accelerate to 3.1% in 2024. The IMF also upgraded its growth forecast for the US in 2023 to 1.4% from 1.0% in the prior projection. The fund now sees a "narrow path" where a recession can be avoided in 2023.

Fourth Quarter Earnings: Q4 earnings season remained front and center last week. As of Friday 251, members of the S&P 500 have reported results with 70% surprising to the upside. Aggregate earnings growth for the group is down 3.5% from a year ago, slightly worse than the 2.9% decline expected when all is said and done. So far, the strongest growth has come from the Energy, Industrials, Utilities and Consumer Discretionary sectors, whereas, Materials and Communication Services have delivered the weakest results.

The Week Ahead: Among the highlights this week is a speech by Fed Chair Powell on Tuesday following last week's downshift to a smaller 25 basis point hike. At the press conference following the FOMC meeting, Powell's tone was viewed as dovish, as such, investors will monitor the tone of this week's speech to see if that remains the case following the surge in monthly payrolls. As is almost always the case the week following the payroll data, the economic calendar will be very light. The focal point will come on Friday when the University of Michigan sentiment survey will be released. According to Bloomberg, economists expect the sentiment gauge to inch higher to 65.0 from 64.9 in January. It will be another busy week of earnings reports with 90 members of the S&P 500 expected to release results. In addition to Powell's speech on Tuesday, eight other Fed appearances will be on the docket including Vice Chair of Supervision Barr (Tuesday), New York Fed President Williams

(Wednesday), Fed Governor Cook (Wednesday), Minneapolis President Kashkari (Wednesday) as well as Fed Governor Waller (Wednesday).

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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