February 13, 2023

# Weekly Viewpoint

## Stocks Take a Breather

### Performance for Week Ending 2.10.2023

The Dow Jones Industrial Average (Dow) finished off 0.17%, the Wilshire 5000 Total Market Index^SM (Wilshire 5000^SM) lost 1.44%, the Standard & Poor's 500 Index (S&P 500) dipped 1.11% and the Nasdaq Composite Index (NASDAQ) shed 2.41%. Sector breadth was negative with 10 of the 11 S&P sector groups closing lower. The Communication Services sector (-6.59%) was the worst performer followed by Consumer Discretionary (-2.22%) and the Real Estate sector (-2.01%).  On the upside the Energy sector (+5.03%) bucked the trend.

| Index* | Closing Price 2/10/2023 | Percentage Change for Week Ending 2/10/2023 | Year-to-Date Percentage Change Through 2/10/2023 |
|---|---|---|---|
| **Dow** | 33869.27 | -0.17% | +2.18% |
| **Wilshire 5000** | 40790.40 | -1.44% | +7.13% |
| **S&P 500** | 4090.46 | -1.11% | +6.54% |
| **Nasdaq** | 11718.12 | -2.41% | +11.96% |

### Market Observations: 2/3/23 – 2/10/23

The S&P 500 finished the week lower, breaking a two-week winning streak, and posting its biggest loss since the start of the year. Stocks see-sawed between gains and losses over the course of the week as investors debated the outlook for interest rate policy, the strength of the US economy, and fourth quarter earnings season. Following the recently reported payroll report, which showed the economy added a much higher than expected 517K jobs in January, investors are starting to accept that the path higher for interest rates may be above recent expectations. During the week, a parade of Fed speakers continued to drive home the message that rates need to be lifted higher to slow the economy and inflationary pressure. New York Fed President John Williams called the December dot plot a good guide, implying at least a couple more 25-basis point moves, adding that rates are "barely into restrictive" territory. Fed Governor Lisa Cook said, "we are not done yet." Minneapolis Fed President Neel Kashkari said he expects the peak rate to rise above 5% this year and said while the Fed doesn't want to cause a recession, "we have a job to do."  While that message has fallen on deaf ears over the past few months, it seemed to take hold last week.  The year on the 2-year Treasury, which tends to be very sensitive to changes in monetary policy finished the week at 4.52%—the highest since late-November. According to Bloomberg's World Interest Rate Probability tool the fed funds futures market is now fully pricing in a 25-basis point rate hike at the March FOMC meeting followed by a nearly 80% chance of a follow-on hike in May.

Despite the building expectations of additional tightening, there anecdotally seems to be some acceptance that the Fed may be able to maneuver a "soft landing" outcome (i.e., avoid a recession). Fed Chairman Powell recently said as much at his follow-up press conference, stating that he still sees a path toward the Fed's inflation goal without a big economic downturn. However, due to the lagged impact of changes in monetary policy, a slowdown in economic conditions in the quarters ahead still seems like a good bet. Though, with the resiliency in consumption, the overall strength in corporate balance sheets and a healthy banking system, if a contraction were to evolve it would likely be short and shallow. Corporate leaders seem to agree with this outcome. Last week, the Conference Board released their first quarter CEO Confidence survey. Of those polled, 93% said they are preparing for a recession, but most said they believe it will be both brief and shallow.

**Fourth Quarter Earnings:** Q4 earnings season will begin to move to the backburner in the weeks ahead, although reported results have been no worse than feared. As of Friday 346, members of the S&P 500 have reported results with nearly 70% surprising to the upside. Aggregate earnings growth for the group is down 2.3% from a year ago, but mildly better than the 3.3% decline expected at the start of earnings season. On the sector level, 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:** The focal point of the coming week will be the January consumer price index (CPI) report on Tuesday. The recent payroll report and multiple datapoints showing a slowdown in inflation readings have sparked a fresh optimism among investors for a potential "soft landing." According to Bloomberg, economists are expecting the headline CPI to rise by 6.2% year-over-year down from 6.5% in December. The core rate—which exclude food and energy price—is seen gaining 5.4% y/y from 5.7% in the prior month. Aside from inflation, there will be plenty of key economic activity indicators, including retail sales, industrial production, the Empire Manufacturing report, housing starts and building permits, jobless claim, the Philly Fed business outlook data, and the leading economic indicators report on Friday. Earnings season will begin to wind down with 58 members of the S&P 500 scheduled to release results. Fed speakers will have plenty of opportunity to address the data throughout the week, with at least ten appearances scheduled.

## 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 Index**℠ 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.