Weekly Market Update

General Market News

- As the Federal Open Market Committee (FOMC) enters the quiet period leading up to its next policy meeting (January 31–February 1), the average Bloomberg surveyed economist expects to see another half percent of increases in the first quarter before levels remain stable through the second and third quarters. Inflation data has shown recent signs of softening, but Federal Reserve (Fed) officials will require more convincing signs before there are any serious conversations about stopping its cycle. Fed Governor Lael Brainard explained, "Even with recent moderation, inflation remains high, and policy will need to be sufficiently restrictive for some time to make sure inflation returns to 2 percent on a sustained basis." Still, as we approach the February 1 FOMC rate decision, futures markets are confidently pricing in a smaller hike of 25 basis points (bps). This marks a significant downshift after a string of four 75 bps hikes and one 50 bps hike in 2022. Speaking to the possibility of a quarter percentage point hike, Brainard noted, "This will enable us to assess more data as we move the policy rate closer to a sufficiently restrictive level, taking into account the risks around our dual-mandate goals." U.S. Treasury yields didn't see much movement last week. The 2-, 5-, and 10-year were down 7 bps, to 4.17 percent, 3.54 percent, and 3.44 percent, respectively. The 30-year ended 1 bp lower at 3.6 percent.
- The Nasdaq Composite outperformed the Dow Jones Industrial Average last week as growth equities outperformed value equities. The outperformance of the Nasdaq was due to the drop in Treasury yields on the back of weaker-than-expected retail sales for December and softer-than-expected inflationary data in the form of the **Producer Price Index** (PPI). The PPI, which measures the average change over time in the selling prices received by domestic producers, fell 0.5 percent in December versus 0.1 percent expected. As a result, the economy showed hints of slowing faster than expected and fueled hopes that the Fed will ease the magnitude and pace of its rate hikes in 2023. The falling Treasury yields translate into a lower cost of capital for communication services, energy, technology, and consumer discretionary, which all outperformed. Industrials, utilities, and consumer staples lagged.
- The highlights of last week came on Wednesday with the release of the **retail sales**, PPI, and **industrial production** data for December. Headline and core retail sales both by more than expected to end the year. Producer prices fell more than expected in December, due in part to falling gas prices during the month. Industrial production also fell more than expected in December, driven by a larger than expected 1.3 percent decline in manufacturing production.
- The week wrapped on Friday with **existing home sales** for December. Existing home sales fell less than expected in December; however, the annualized pace of sales fell to its lowest level since 2010 to end the year.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.65	3.55	3.55	–8.17
Nasdaq Composite	0.55	6.47	6.47	–18.40
DJIA	–2.66	0.78	0.78	–0.54
MSCI EAFE	0.01	7.05	7.05	–6.36
MSCI Emerging Markets	0.63	8.39	8.39	–14.27
Russell 2000	–1.04	6.06	6.06	–4.71

Source: Bloomberg, as of January 20, 2023

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	2.89	2.89	–8.88
U.S. Treasury	2.37	2.37	–8.98
U.S. Mortgages	3.28	3.28	–7.49
Municipal Bond	2.83	2.83	–4.61

Source: Bloomberg, as of January 20, 2023

What to Look Forward To

This week's data will focus on economic growth, durable goods, and personal spending and income.

Thursday will see the release of **advance estimate fourth quarter GDP growth** and **preliminary estimate durable goods orders** data for December. Economists expect to see continued signs of economic growth when the fourth quarter GDP report is released. Personal consumption growth is set to rise during the quarter, supporting overall economic growth. Orders of durable goods are set to rise in December, driven in part by an increase in volatile transportation orders.

Friday will see the release of **personal income and personal spending** reports for December. Both are expected to come in mixed, with economists projecting a modest increase for incomes during the month, while spending is set to drop.

Authored by the Investment Research team at Commonwealth Financial Network®