FEBRUARY 21, 2023

Weekly Market Update

General Market News

- The next Federal Open Market Committee (FOMC) rate decision is roughly one month away (March 22), and market participants will pay close attention to economic releases between now and then. Recent indicators point to an energetic economy in the U.S., leading to questions about where the Federal Reserve (Fed) will take rates from here. With the unemployment rate resting at a 53-year low, retail sales showing resilience and notching their biggest monthly gain in nearly two years, and January's inflation numbers showing a bit more heat than expected, conditions seem supportive of further rate hikes. Although current market pricing largely shows the expectation for a 25 basis point (bps) hike in March, strong economic reports have led markets to price in a growing likelihood of a 50 bps hike. U.S. Treasury yields rose across the curve last week. The 2-year gained 17 bps to 4.69 percent, the 5-year grew 19 bps to 4.11 percent, the 10-year added 4 bps to 3.7 percent, and the 30-year increased 8 bps to 3.82 percent.

- Markets were mixed as investors battled the crosswinds of a reopened global economy with near-term inflationary pressures. The result was a slightly down week for the S&P 500 despite risk assets in emerging markets and U.S. small-caps moving in opposite directions. With higher-than-expected inflationary data coming out last week, we saw the U.S. dollar strengthen for the third week in a row, taking the wind out of the sails of emerging markets. West Texas Intermediate crude fell 4 percent after gains of more than 8 percent in the previous week. The change in the potential need for additional rate hikes from the Fed supported regional banks within the small-cap index. Top performing sectors were consumer discretionary (driven by autos), consumer staples, and utilities. Struggling sectors were energy, REITs, and materials as cyclical stocks slowed on higher potential rates.

- Last week was full of economic data releases, including inflation data, retail sales, industrial production, and home builder sentiment.

- On Tuesday, the **Consumer Price Index** report for January showed that headline consumer prices increased 0.5 percent, as expected. On a year-over-year basis, consumer inflation continued to decelerate.

- Wednesday had multiple releases, with **Retail Sales** and **Industrial Production** for January alongside the February **National Association of Home Builders Housing Market Index**. Retail sales rebounded after two months of declines to end 2022. The rise in headline sales was partially supported by rising gas prices during the month; however, core sales, which exclude auto and gas sales, also increased more than expected. Industrial production was unchanged, due in part to unseasonably warm weather that lowered heating demand. Manufacturing output, on the other hand, increased 1 percent. Home builder sentiment increased modestly in February, marking two months with improved confidence to start the year. The index nonetheless sits well below post-pandemic highs from 2020 and 2021, indicating continued headwinds for the industry.

- Major releases wrapped on Thursday with January's Producer Price Index. Headline and core producer prices increased more than expected; however, on a year-over-year basis, both measures of producer inflation continued to moderate.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	–0.20	0.20	6.50	–4.62
Nasdaq Composite	0.63	1.84	12.76	–12.23
DJIA	0.02	–0.57	2.35	1.37
MSCI EAFE	0.12	–0.58	7.47	–4.03
MSCI Emerging Markets	–1.38	–3.07	4.58	–16.49
Russell 2000	1.47	0.82	10.65	–1.72

Source: Bloomberg, as of February 17, 2023

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	–1.95	1.07	–8.72
U.S. Treasury	–1.86	0.60	–9.19
U.S. Mortgages	–1.83	1.40	–7.91
Municipal Bond	–1.86	0.96	–4.46

Source: Bloomberg, as of February 17, 2023

What to Look Forward To

The holiday-shortened week will be light in terms of the number of releases but not in their potential impact.

Tuesday will see the release of the **Existing Home Sales** report for January and **FOMC Meeting Minutes** from January. Existing home sales are again expected to decline, which would mark 12 straight months with declining sales. Following last week's Consumer Price Index and Producer Price Index reports, economists and investors will closely monitor the release of the meeting minutes for hints on the path of monetary policy.

Finally, the week will wrap on Friday with the release of **Personal Income and Personal Spending** reports for January, which are expected to show a rebound in spending and continued income growth to start the year.

Authored by the Investment Research team at Commonwealth Financial Network®