February 2023 Market Update

Special points of interest:

- **The month of February created losses for investors—the average US stock fund fell 2.3%.**
- **Unemployment remains abnormally low, leading to rising expectations of further Fed interest rate increases.**
- **The latest higher-than-expected inflation reading from mid Feb has caused investors to reassess rate expectations.**
- **An upended real estate market will likely see parallels elsewhere, though consumer spending remains robust.**

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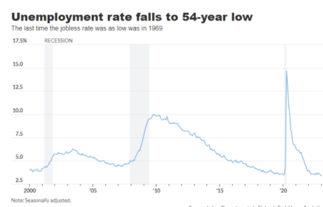
The Markets in February 2023

Continuing the seesaw monthly market performance we saw in the second half of last year, the month of February created losses for investors after a strong January. The DJIA lost 4.2% while the S&P 500 index dropped 2.6% and the Nasdaq lost 1.1%. The average U.S. stock fund fell 2.3% according to Refinitiv Lipper data. Commodities were similarly affected by the market's malaise, with crude oil prices on the NY Mercantile Exchange falling 2.3% and gold dropping 5.2%.

Fixed income dropped in sync with equities as the average intermediate-term bond fund lost 2.4% for the month. Conversely, the yield on the 10-year Treasury bond rose from 3.529% at the end of January to 3.916% at the end of February.

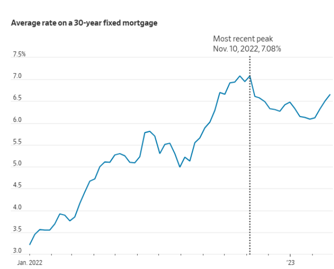


Yet demand for workers remains strong in our domestic economy—the unemployment rate fell to a 54-year low of 3.4% at the end of January. Further, new weekly applications for jobless benefits also remained below 200k, near the lowest levels on record. Because of the strong labor market, the Fed continues to raise interest rates, albeit at a smaller level at their last meeting concluded Feb 1. Fed officials have repeatedly stressed their concern that inflation (5.4%, PCE price index) remains stubbornly high, well above their target rate of 2%. The next Fed meeting will conclude on March 22 and will likely feature another 25-bp rate increase.

The Fed approved the smallest interest rate increase of this cycle (25 bp) on Feb 1 but warned that 'ongoing' rate hikes are needed.

The Look Ahead

Just as investors were beginning to believe in a 'soft' landing for the economy, the latest higher-than-expected inflation reading from mid-February has caused a reassessment. Investors now see the possibility of Fed rate increases up to as high as 6%, which would almost certainly lead to economic recession. In sync with this updated view, mortgage rates have been rising for the past four weeks as of March 2, their highest level since early November, according to Freddie Mac. Mortgage applications from home buyers slid to their lowest level in 28 years on a seasonally adjusted basis, according to the Mortgage Bankers Association. An upended real estate market will likely see parallels elsewhere, though consumer spending remains robust with 1.8% growth in January. Which will crack first—consumer demand or inflation? The answer will drive the Fed and markets in the coming weeks.



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