January 2023 Market Update

Special points of interest:

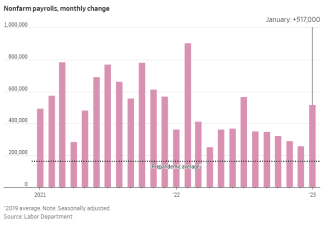
- **Markets started off the year with a bang—all three major domestic stock indices rose.**
- **The unemployment rate edged down to 3.4% in January.**
- **The first half of 2023 is likely to be dominated by the Fed's rate forecasts for 2023 and 2024.**
- **Based on January data, we face the possibility that the Fed actually sticks its 'soft landing' goal.**

Inside this issue:

The Markets in January 2023

Markets started off the new year with a bang, especially in asset categories like technology that had a tough time in 2022. All three major domestic stock market indices rose in the month, although the Nasdaq had its best start to the year since 2001, increasing 11%. The S&P 500 index and DJIA added 6.2% and 2.8% respectively. International stocks also rose; the Stoxx Europe 600 index was up 6.7% and Hong Kong's Hang Seng index soared 10%. If there is some truth to the idea that January tends to set the tone for the year, then 2023 promises to be a redemption year for global equity investors.

Fixed income prices also rose for the month as yields declined, despite the Fed raising domestic interest rates another quarter point on February 1 and its signal to do so again in March. The yield on the 10-year Treasury fell to 3.513%, down from 3.879% at the end of December.



Employment continued to show steady gains as hiring accelerated in the month. Employers added over 500k jobs in January (the largest monthly increase since July), reversing a five-month trend, and the unemployment rate edged down to 3.4%.

Further, the Commerce Department recently said that U.S. GDP grew at a 2.9% annual rate in the fourth quarter, driven primarily by consumer spending.

While investors may have felt panic heading into 2023, January's market results give us something better to ponder.

The Look Ahead

The first half of 2023 is likely to be dominated by the Fed's rate forecasts for 2023 and 2024. As of the end of January, derivatives markets show the federal funds rate reaching 4.9% by June, after which up to two rate cuts are expected for the second half. But will we actually get rate cuts in 2023? Fed Chairman Jerome Powell has repeatedly dismissed the possibility for this year, and in his most recent comments reiterated the Fed's desire to keep raising rates at its next meeting. A key piece of his analysis rests on ongoing job gains and wage growth.

Backing this up, employment gains continue to defy anecdotal news stories of layoffs in various industries (see above). By the end of 2022, the market had clearly baked a recession scenario into asset prices, but I think we face the possibility now that the Fed actually sticks its 'soft landing' goal. What would this mean for investors? Exactly what we saw in January market results—strong stock gains, especially in growth areas such as technology, and supportive bond prices. Investors who stayed the course out of 2022 are likely to benefit further.

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