

Weekly Market Update



General Market News

- The Federal Reserve (Fed) may feel that it has been receiving mixed signals recently as the labor market continues to show signs of tightness amidst softening inflation data. Regardless, Fed officials have yet to see convincing evidence that inflation is cooling at a sufficient pace, and we will likely see more rate hikes ahead. Bloomberg surveyed economists are anticipating another half percent of hikes in the first quarter of 2023. In addition to this coming Thursday's release of December Consumer Price Index (CPI) data, markets will be keeping an eye out for comments from Fed officials that may provide a bit more insight on where rates could go from here. U.S. Treasury yields moved modestly last week. The 2-year was up 6 basis points (bps) to 4.49 percent while the 5-year, 10-year, and 30-year fell 6 bps (to 3.95 percent), 13 bps (to 3.75 percent), and 16 bps (to 3.81 percent), respectively.
- The first week of the year saw mixed trading, but equity markets moved higher following of a 'Goldilocks' employment report on Friday. Expectations were for 203,000 jobs to be added after 256,000 jobs added in November. While the number of jobs created came in better than expected at 223,000, this is a decline of 33,000 jobs from the prior month. Average hourly earnings came in 0.3 percent slightly lower than the expected and half of the November figure. The result is a continually strong job market but easing wage pressures, which should help ease the demand side of inflation. The Nasdaq Composite Index was up more than 2.5 percent on Friday alone as monthly wage growth came in lower than expected despite a drop in the unemployment rate. While short-term rates increased last week with meeting minutes that expressed the Fed believes it still has more work to do, long-term rates fell alongside longer duration growth companies saw their inflation fears ease for the time being. Emerging Markets also performed well as China continues to ease its Covid-19 restrictions as well as regulations on its property developers. Communication services, materials, financials, and industrials were top performers while sectors such as health care, energy, technology, and utilities lagged.
- The first week of 2023 was filled with economic updates. The holiday-shortened week saw releases kick off on Wednesday with the release of the **ISM Manufacturing index** and Federal Open Market Committee (**FOMC Meeting Minutes**) for December. Manufacturer confidence declined slightly more than expected in December, as slowing global demand for manufactured goods caused sentiment to drop. The minutes showed that many central bankers remain concerned about inflation despite the recent declines that we've seen in year-over-year price growth. The Fed is expected to keep monetary policy tight through the start of the year.
- On Thursday, we saw the release of the **international trade report** for November. The trade deficit narrowed more than expected in November, driven by a 6.4 percent drop in imports and a 2 percent decline in exports.
- Finally, Friday saw the release of the **employment report** for December. The labor market remained strong at the end of 2022, with 223,000 jobs (which was more than expected) added in December. The unemployment rate also declined, hitting the post-pandemic low of 3.5 percent.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.47	1.47	1.47	-15.35
Nasdaq Composite	1.01	1.01	1.01	-28.63
DJIA	1.50	1.50	1.50	-5.23
MSCI EAFE	2.68	2.68	2.68	-11.90
MSCI Emerging Markets	3.39	3.39	3.39	-16.99
Russell 2000	1.81	1.81	1.81	-16.57

Source: Bloomberg, as of January 6, 2023

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.85	1.85	-10.02
U.S. Treasury	1.67	1.67	-9.55
U.S. Mortgages	2.14	2.14	-8.89
Municipal Bond	1.15	1.15	-6.83

Source: Bloomberg, as of January 6, 2023



What to Look Forward To

This week will be light in terms of the volume of data releases, though not necessarily their potential impact on markets, highlighted with the December's **CPI report** on Thursday. Following last week's Goldilocks jobs report, investors will look for clues if inflation is cooling like that of employment and wages. Headline consumer prices are set to remain unchanged in December while core prices are

expected to modestly increase. Both headline and core consumer inflation are set to slow on a year-over-year basis during January.

Finally, Friday will see the release of the Preliminary **University of Michigan consumer sentiment report** for January. Consumer sentiment is expected to increase modestly during the month, which would mark two consecutive months with improving confidence.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev.01/23.

Authored by the Investment Research team at Commonwealth Financial Network®