January 2023: Market Review

Global equity markets rebounded in January as investors began to move on from a tough 2022, which saw the worst year for markets since the 2008 financial crisis. The S&P 500 Index rose +6.3% in January, led by a recovery in technology and growth-oriented stocks. The tech-heavy NASDAQ Composite led the major indices, rising +10.7% for the month. The Dow Jones Industrial Average added +2.9%. Equities rallied on solid economic data, particularly regarding inflation and GDP growth. Inflation has begun to decline in recent months and January's inflation reading (CPI: +6.5% year-over-year) was softer than expected. This positive inflation data gave investors reason to believe that the Fed rate hikes are working and thus the Fed may indeed be nearing the end of this monetary tightening cycle. In addition, the first estimate of fourth quarter real GDP showed growth of +2.9% year-over-year annualized, which was much higher than estimates a month ago. European markets rose after a mild winter thus far has eased investors' concerns of an energy crisis. Also, recent data indicates that the European economy is performing better than previously expected.

In domestic equity markets, growth stocks outpaced value across all market capitalization sizes in the month of January. The Russell 1000 Growth Index rose +8.3% for the month versus the Russell 1000 Value Index return of +5.2%. The Russell Midcap Growth Index increased +8.7% while the Russell Midcap Value Index improved +8.1%. The Russell 2000 Growth Index added +10.0% whereas the Russell 2000 Value Index gained +9.5%. Gold posted large gains, ending the month at $1,929 per ounce, up +6.4% in January and up nearly +20% since its September low. WTI crude oil declined slightly, ending the month at $79 per barrel.

Developed international equities outperformed U.S. equities for the third consecutive month as the U.S. dollar continued show weakness relative to a basket of major currencies. Additionally, sentiment regarding European markets improved after the Euro zone economy unexpectedly grew in the final quarter of 2022. The MSCI EAFE Index returned +8.1% in the month, matching the MSCI ACWI ex USA Index (which includes emerging markets) gain of +8.1%. The MSCI EM Index gained +7.9%, driven by Chinese equity markets, which rose +11.8% in the month. Investors have expressed optimism with regard to the Chinese economy reopening now that the zero-Covid policies have been relaxed.

U.S. fixed income markets posted gains during the month, as rates declined at the longer end of the yield curve in January. The U.S Bloomberg Aggregate Bond Index gained +3.1% during the month while the Bloomberg U.S. Treasury 20+ Year Index increased +7.0% this month. The Bloomberg U.S. Corporate High Yield Bond Index added +3.8% for the month. Yield inversions widened in January, the negative spread between the 2-year and the 10-year U.S. Treasury notes increased to -0.69% while the spread between the 3-month and the 10-year U.S. Treasury notes declined to -1.18%. Investors' attention will be focused on the upcoming Federal Reserve's February meeting and market consensus is that the Fed will raise the Fed Funds rate another 25 basis points.

Investors cheered the positive news regarding inflation in January, however, the outlook on the coming year remains uncertain and will likely hinge on the Fed's ability to gage the real-time impact of monetary tightening. The odds of a soft landing for the economy have gone up in recent weeks yet leading economic indicators, such as manufacturing and housing data, suggest the economy is slowing considerably. Additionally, recent corporate earnings reports have been mixed, with forward guidance citing inflation and higher interest rates as major headwinds to profit margins in the coming year. A key figure the market is keeping a close watch on remains the unemployment rate, which has shown much resiliency in this monetary tightening cycle. Plentiful jobs continue to underpin the consumer's spending patterns. The market expects the Fed to pause with rate hikes after their March meeting, leaving the Fed Funds rate around 5%. Any deviation from this expectation between now and then will likely contribute to market volatility, both with stocks and bonds.

See footnotes on the following page.

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