Week Ending 1/13/2023

WEEK IN PERSPECTIVE

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Off to a strong start in 2023

The stock market has started 2023 on a decidedly strong note. This week looked a lot like last week with the main indices logging decent gains on the basis that the Fed won't have to raise rates as much as feared and that the U.S. economy may see a "soft landing" after all.

Market participants settled into a wait-and-see style trade in the first half of the week in front of Fed Chair Powell's speech on Tuesday, the December Consumer Price Index (CPI) on Thursday, and bank earnings reports on Friday that marked the official start to the Q4 earnings reporting season.

Fed Chair Powell gave a speech titled "Central Bank Independence" Tuesday morning. Investors may have felt emboldened because Mr. Powell did not purposely kill the market's rebound activity in his speech. He did, however, acknowledge that, "...restoring price stability when inflation is high can require measures that are not popular in the short term as we raise rates to slow the economy."

The latter point notwithstanding, the S&P 500 was able to close above technical resistance at its 50-day moving average.

By Thursday's open, market participants were digesting the much-anticipated December CPI report. It was in-line with the market's hopeful expectations that it would show continued disinflation in total CPI (from 7.1% year/year to 6.5%) and core CPI (from 6.0% year/year to 5.7%).

Those were pleasing headline numbers, but it is worth noting that services inflation, which the Fed watches closely, did not improve and rose to 7.5% year/year from 7.2% in November.

That understanding did not seem to hold back the stock or bond market. The price action in those markets on Thursday generally supported the view that the Fed will pause its rate hikes sooner rather than later. In fact, the fed funds futures market now prices in a 67.0% probability of the target range for the fed funds rate peaking at 4.75-5.00% in May versus 55.2% a week ago, according to the CME FedWatch Tool.

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The positive price action in the stock market was particularly notable considering the big move leading up to the CPI report. The S&P 500 was up 3.7% for the year entering Thursday and up 4.4% from its low of 3,802 on January 5.

When Friday's trade began, though, market participants decided to take some profits following the big run. Ahead of the open, Bank of America, JPMorgan Chase, Wells Fargo, and Citigroup reported mixed quarterly results relative to expectations that featured increased provisions for credit losses. Those stocks languished out of the gate, as did the broader market, but true to form so far in 2023, buyers returned and bought the weakness. Before long the bank stocks were back in positive territory and so was the broader market.

The S&P 500 moved above its 200-day moving average (3,981) on the rebound trade and closed the week a whisker shy of 4,000.

Only two of the S&P 500 sectors closed with a loss this week -- health care (-0.2%) and consumer staples (-1.5%) -- while the heavily weighted consumer discretionary (+5.8%) and information technology (+4.6%) sectors logged the biggest gains.

The 2-yr Treasury note yield fell five basis points to 4.22% and the 10-yr note yield fell six basis points to 3.51%. The U.S. Dollar Index fell 1.6% this week to 102.18.

WTI crude oil futures made strides to the upside this week rising 8.5% to $80.06/bbl. Natural gas futures fell 4.8% to $3.23/mmbtu.

- Russell 2000: +5.3% for the week / +7.1% YTD
- S&P Midcap 400: +3.7% for the week / +6.2% YTD
- Nasdaq Composite: +4.8% for the week / +5.9% YTD
- S&P 500: +2.7% for the week / +4.2% YTD
- Dow Jones Industrial Average: +2.0% for the week / +3.5% YTD

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