WEEK IN **PERSPECTIVE**

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2023 rally hits an air pocket

The 2023 rally hit an air pocket this week. Investors might have been looking to take some money off the table after sizable gains over the previous two weeks.

In addition, growth and rate hike concerns, which had been put on the backburner to start the year, seemed to be back in play.

The market initially reacted positively on Wednesday to the welcome slowdown in inflation reflected in the December Producer Price Index (PPI) (actual -0.5%; Briefing.com consensus -0.1%). Any optimism that may have come from the pleasing PPI report quickly dissipated, though, as investors digested the weak retail sales and manufacturing data from December.

Briefly, retail sales fell 1.1% month-over-month in December (Briefing.com consensus -0.8%) after falling a revised 1.0% in November (from -0.6%) and industrial production decreased 0.7% month-over-month in December (Briefing.com consensus -0.1%) after decreasing a revised 0.6% in November (from -0.2%).

The main indices sold off on Wednesday due to the understanding that the Fed is likely to remain on its rate hike path in spite of a weakening economic backdrop, increasing the risk for a policy mistake to trigger a deeper setback. Selling efforts had the S&P 500 take out support at its 200-day moving average.

Market participants also received official commentary on the economy when the FOMC released its latest Beige Book at 14:00 ET Wednesday. On balance, contacts generally expected little growth in the months ahead.

St. Louis Fed President Bullard (non-FOMC voter) added fueled the market's concerns saying that he would prefer that the Fed stay on a more aggressive path, according to CNBC, but added that the prospects for a soft landing have improved.

Thursday's trade looked a lot like Wednesday's trade with investors reacting to more data and commentary pointing towards weakening growth and the possibility of the Fed making a policy mistake.

Building permits decreased for the third consecutive month in December (actual 1.330 mln; Briefing.com consensus 1.370 mln). That report, however, contained one positive element, as single-family starts grew 11.3% month-over-month.

Weekly initial claims were released at the same time, which decreased to their lowest level since late September (actual 190,000; Briefing.com consensus 212,000), implying no new difficulties in the labor market that could put a quick stop to the Fed's hiking cycle.

JPMorgan Chase CEO Jamie Dimon said in a CNBC interview Thursday morning "I think there's a lot of underlying inflation, which won't go away so quick," adding that he thinks rates will top 5.0%.

As earnings season progresses, the main sticking point for stock market participants is the potential that weaker growth will translate to further cuts to earnings estimates.

Dow component Goldman Sachs sold off sharply on Tuesday after reporting below-consensus earnings and revenue, along with increased provisions for credit losses.

So far, however, quarterly results have generally received positive reactions from investors. In contrast to Goldman Sachs, Morgan Stanley received a favorable reaction despite a Q4 earnings miss.

Another notable name that reported earnings was Netflix (NFLX), which surged 8.5% on Friday and led to renewed interest in the tech space. This helped drive the sentiment shift that fueled a strong rally effort on Friday.

The rebound effort to close out the week had the Nasdaq Composite recoup all of its losses while the S&P 500 and Dow Jones Industrial Average put a nice dent in their weekly losses. The S&P 500 was able to climb back above its 200-day moving average by Friday's close.

Only three S&P 500 sectors were able to log a gain this week -- communication services (+3.0%), energy (+0.7%), and information technology (+0.7%) -- while the industrials (-3.4%), utilities (-2.9%), and consumer staples (-2.9%) sectors suffered the steepest losses.

The 2-yr Treasury note yield fell two basis points this week to 4.20% and the 10-yr note yield fell three basis points to 3.48%. The U.S. Dollar Index fell 0.2% to 101.99.

WTI crude oil futures rose 2.3% to $81.69/bbl and natural gas futures fell 5.3% to $3.03/mmbtu.

Separately, Treasury Secretary Yellen notified Congress via a letter that the debt ceiling has been reached, prompting the Treasury Department to begin employing extraordinary measures.

- Nasdaq Composite: +0.6% for the week / +6.4% YTD
- Russell 2000: -1.0% for the week / +6.0% YTD
- S&P Midcap 400: -0.9% for the week / +5.3% YTD
- S&P 500: -0.7% for the week / +3.5% YTD
- Dow Jones Industrial Average: -2.7% for the week / +0.7% YTD

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