Weekly Wire

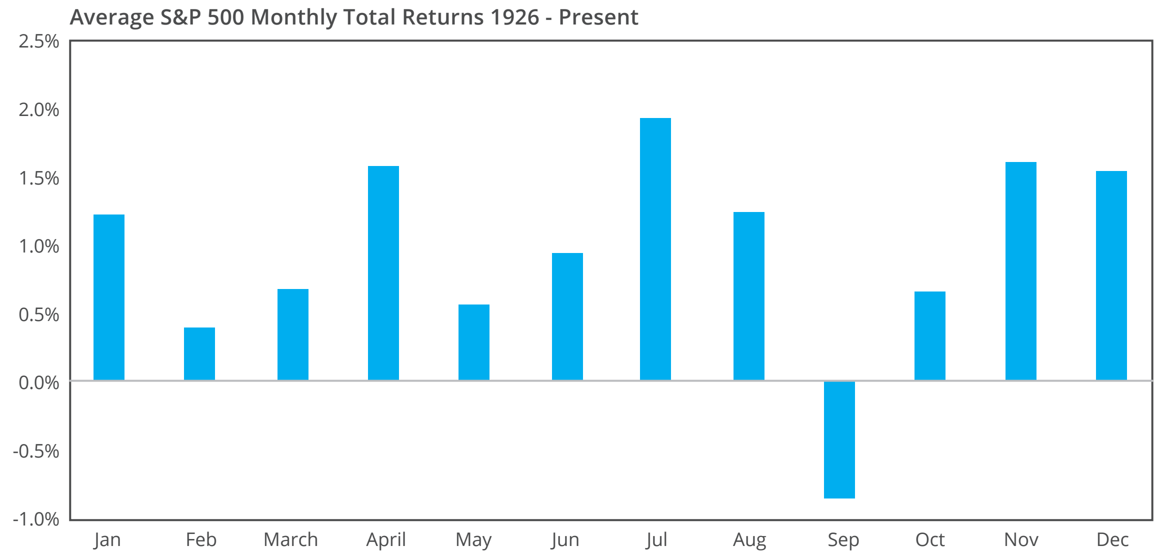
JANUARY 30, 2023

As Goes January

A few weeks back, we took pen to paper on a Weekly Wire that pointed out – at the risk of jinxing it – that the S&P 500 was up 1.4% over the first four trading days of the year, and that if we could close positive for the year through the fifth trading day of 2023 (January 9th), the odds were quite good that US equities would deliver a positive return for the full year (since 1929, when the stock market was up through the first five trading days, it went on to deliver a full year gain 75% of the time, producing an above average annual return of 11.9%).

Well, the S&P 500 didn't disappoint, as the market was up about 1.3% through Monday, January 9th. Now – at the risk of jinxing it – we find ourselves taking pen to paper on a Weekly Wire that is pointing out that the S&P 500, with two trading days to go in the month of January, is up 6.02% year to date (well above the 1.2% average return the month of January has historically produced; see graph). And this is worth noting as a positive January has historically been associated with a positive year for stocks. More specifically, since 1950, when the market produced a positive return for the month of January it went on to produce a positive return for the full year 85% of the time, providing investors with a well above average return of 17.6%.

As we all know, the market is ultimately driven by fundamental factors, particularly interest rates and earnings (the lower the better as it concerns the former, and the higher the better as it concerns the latter). That said, after an extremely challenging 2022 we have no problem grabbing onto any good news the new year will provide, and the US stock market beginning 2023 on the front foot, and what that might mean for full year returns, certainly counts as very good news to us.



Stocks, bonds, and commodities (1/27/2023)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4070.56	6.02%	6.02%	-8.15%
MSCI AC World ex USA	306.37	8.91%	8.91%	-6.48%
MSCI EAFE	2109.29	8.51%	8.51%	-4.19%
MSCI EM	1051.19	9.91%	9.91%	-11.75%
Bloomberg Barclays US Agg	91.45	2.89%	2.89%	-10.57%
Crude Oil WTI	79.38	-1.10%	-1.10%	-8.57%
Natural Gas	2.86	-30.43%	-30.43%	-38.46%

Treasury rates (1/27/2023)

	Price	Yield
2Y	99.266 / 0.00	4.207
3Y	99.276 / 0.00	3.917
5Y	99.134 / 0.00	3.626
7Y	99.164 / 0.00	3.579
10Y	104.30 / 0.00	3.519
30Y	106.19 / 0.00	3.634

Weekly reports

This week (1/30/2023)

- Jan Chicago PMI SA
- Jan Nonfarm Payrolls SA

Week of 1/23/2023

- Q4 GDP SAAR Q/Q 2.9%
- Dec New Home Sales SAAR 616.0K

Source: Strategas

Brinker Capital Market Barometer

JANUARY 2023

Global stocks couldn't maintain positive momentum as a bounce in rates and a hawkish Federal Reserve led to losses in December. The Federal Reserve did vote to slow its pace of rates hikes to 0.50% in December following four consecutive 0.75% moves. This was generally viewed as a positive outcome, but Chairman Powell was quick to turn away any narrative of a dovish pivot from the committee. This marked a near term peak in US equity markets and led to a selloff in fixed income markets as well. Congress came together to pass the Omnibus Bill which will lead to $1.7 Trillion in government spending, nearly half of which is focused on defense programs. Nonfarm payrolls and unemployment claims continue to show a strong labor market, proving to be a thorn in the side of the Fed looking to slow growth to cool inflation. Higher interest rates have taken a toll on the housing market as numerous data have declined significantly. While hope remains for a potential soft landing, growing consensus is that a recession is more likely than not in 2023. A key point to watch in the coming year will be the resiliency of corporate earnings. While expectations are for a slight decline in Q4, to this point companies have continued to deliver better than expected results. Any significant decline in earnings or negative guidance during 4th quarter reports may lead to further pain in equity markets. Commodity prices have continued to cool in December, leading to consumers seeing the lowest prices at the gas pump in over a year. While this will no doubt be a boost to sentiment, food inflation as well as the cost of services continue to rise at a steady clip. Despite the challenges 2022 presented across markets, expected returns look more favorable as yields have risen across asset classes and valuations have reverted closer to long term averages. While many risks remain, the broad opportunity set for multi-asset portfolios looks as attractive as it has in many years.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			December losses dampened an otherwise strong quarter, positive momentum yet to be sustained
Trend			●		US markets have fallen back below moving averages, but short term averages remain upward sloping
Investor sentiment				●	Survey data is off of extremes, but contrarian view still indicates positive returns going forward
Seasonality				●	Seasonality remains strong through January, though not to the degree that we see in the 4th quarter

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		The Omnibus Bill provides fiscal spend, but lack of tax changes increases the burden on corporations
Monetary policy		●			December should have signaled the peak in pace of hikes, but Fed rhetoric remains hawkish into 2023
Inflation		●			Headline inflation has moderated, but y/y numbers remain at elevated levels
Interest rate environment		●			Rates rose in December, but long term rates remain below the highs of 2022; deep inversion persists
Macroeconomic			●		Strong labor market and consumer spending persists, housing showing slowdown from higher rates
Business sentiment		●			Business confidence measures remain subdued as a growth slowdown is expected
Consumer sentiment		●			Consumer sentiment has rebounded over the past few months but remains depressed
Corporate earnings			●		Q4 to solidify earnings growth for 2022, degree of further forward revisions lower bears watching
Credit environment				●	Level of credit spreads at or below long-term averages, defaults remain low, credit conditions modest

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		U.S. equity valuations near long-term averages; overseas markets below average valuations
Business cycle			●		Q3 GDP showed moderate growth, Q4 expectations show recession fears yet to come to fruition
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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