# Friday Forethought

For week ending January 13 2023

## Market Gains for the Second Consecutive Week of 2023 – Pros and Cons

This week, investors cheered as the market responded as the market responded accordingly to more positive news that inflation slowed for the sixth month in a row. The Consumer Price Index (CPI) fell 0.1% to 6.5%, between November and December - mostly due to the drop in gasoline prices. For the past two weeks we have seen the market pushed up on this positive sentiment, but overall, there is still a strong pull in the opposite direction as prices are still climbing at a rapid rate; taking its toll on consumers' pocketbooks. This push and pull is likely to carry on for several week as there is no single catalyst in near term data that will spur risk-on investors to jump back in.

Policymakers and Fed speakers have varied viewpoints as some remain bearish and support a hawkish viewpoint (seeing an increased benchmark interest rate of 5%), while others are seeing a brighter light at the end of the tunnel and a corresponding lower rate. Even with a tentative end in sight, investment managers remain cautious about the months ahead as the impact of tighter monetary policy on company earnings and economic growth takes time to be felt. Fed Chair Jerome Powell, reiterated that "the central bank remains strongly committed to lowering inflation, even though the interest-rate increases to restrain economic growth could fuel political blowback" (wsj.com)

## Our Take

While we appear to be heading in the right direction with regard to inflation, there is not a guaranteed timeline that we can expect the Fed to follow. For the foreseeable future, we expect the Fed to remain aggressive on maintaining/increasing rates to combat inflation, and as such fixed income will become more attractive as equities work to regain their footing. Also, we need to understand how the coming earnings season could bring more volatility to the market. Equity investors should be aware if costs are increasing faster than net revenues, before taking the plunge. If so, expect corporate financials to come in below expectations due to this negative leverage flowing through from the respective balance sheets. For the first half of this year, we expect to see fixed income be more attractive, so if you have cash on the sidelines, consider these more conservative alternatives. If you have holdings that dropped significantly in 2022, now is probably not an ideal time to dump them as the fixed income alternatives could take quite a while to recoup losses.



QUIN OAKS INVESTMENT GROUP of Wells Fargo Advisors

### Leading Trends

S&P 500 Real Estate Sector and S&P 500 Materials Sector are the leading sectors year-to-date: up 7.64% and up 7.17% respectively.

### Lagging Trends

S&P 500 Health Care Sector and S&P 500 Consumer Staples Sector are the lagging sectors year-to-date: down 0.85% and down 0.19% respectively.

### Weekly Markets

| | | | |
|---|---|---|---|
| ↗ | S&P 500 | 3,983.17 | +4.60% |
| ↗ | NASDAQ | 11,001.10 | +6.75% |
| ↗ | DJIA[1] | 34,189.97 | +3.83% |

[1]Dow Jones Industrial Average

| | | | |
|---|---|---|---|
| ↘ | 10-YR US Treasury | 3.434% | -28.55 bps |
| ↗ | GOLD | 1,902.10 | +3.50% |
| ↗ | OIL | 78.29 | +5.90% |

Market close 1-5-2023 to market close 1-12-2023

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