Friday Forethought

For week ending January 20 2023

Mixed Signals Leads To Mixed Markets

The first two weeks of 2023 held strong gains across the markets, as investor sentiment was buoyed by optimism that the Fed may soon be slowing down the pace of interest rate hikes. The end of China's zero tolerance Covid restrictions also helped lift the markets. However, over the past few days that upbeat mood has faded a bit – as investors are showing more concern that the lagged effects of the Fed's rate hikes are starting to take their toll i.e. September's rate hike is now beginning to show up, and then we could expect to see the effects of November's rise become evident over the next couple of months, and so on.

This uncertain sentiment was most evident on Wednesday when the Dow tumbled more than 600 points, as investors took profit from the January gains on concerns over retail sales and the Fed's hawkish stance. December's lower retail sales, lukewarm corporate earnings and continued evidence of a strong jobs market (even in light of the considerable tech layoffs) raised further concerned about a looming economic recession. This slide continued yesterday, but pulled back from session lows as traders weighed the latest range of diverse opinions from the Fed i.e. dovish stances appear to be having an easing effect on some of the more hawkish rhetoric.

Our Take

While timing of an overall economic recession is nebulous, some sectors are already there or teetering on it, such as housing and manufacturing, respectively. With fixed income yields off less than a percentage point from a 10+ year high set last year (wsj.com), safer debt such as Treasuries and high-grade corporate bonds can allow investors to lock in attractive returns. We recommend staying on the high-grade side and avoiding the riskier higher yield bonds – especially as a possible recession appears eminent, and yields start to widen. As always, we recommend keeping your eye on your investment horizon and make any adjustments based on your personal goals and objectives. Please feel free to contact us if you have any questions or would like our assistance.

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Leading Trends

S&P 500 Real Estate Sector and S&P 500 Materials Sector are the leading sectors year-to-date: up 4.93% and up 4.44% respectively.

Lagging Trends

S&P 500 Health Care Sector and S&P 500 Consumer Staples Sector are the lagging sectors year-to-date: down 2.05% and down 3.39% respectively.

Weekly Markets

S&P 500	3,898.85	-2.12%
NASDAQ	10,852.27	-1.35%
DJIA[1]	33,044.56	-3.35%

[1]Dow Jones Industrial Average

10-YR US Treasury	3.400%	-4.68 bps
GOLD	1,933.80	+1.77%
OIL	80.58	+2.96%

Market close 1-12-2023 to market close 1-19-2023

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