The Weekly Market Update – 4/17/23: Equities Hold YTD Gains as Earnings Begin

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,137.64	0.79%	0.69%	7.77%	-8.67%	4,796.56	15.9%
Dow Jones Industrial Average	33,886.47	1.20%	1.84%	2.23%	-2.28%	36,799.65	8.6%
NASDAQ Composite	12,123.47	0.29%	-0.81%	15.83%	-14.75%	16,057.44	32.4%
Russell 2000	1,781.15	1.52%	-1.18%	1.13%	-13.96%	2,442.74	37.1%
MSCI EAFE (USD)	2,145.72	2.16%	2.54%	10.38%	-1.65%	2,398.71	11.8%
MSCI Emerging Markets (USD)	1,000.49	1.63%	1.03%	4.61%	-12.37%	1,444.93	44.4%
Bloomberg Commodity Index	107.82	1.49%	2.19%	-4.42%	-13.34%	237.95	120.7%
Barclays U.S. Aggregate Bond	90.98	-1.13%	-0.12%	2.36%	-6.99%	112.07	23.2%

Source: FactSet

Major U.S. equity indices were relatively quiet over the first half of April, as data last week on inflation and retail sales were mixed. The widely followed, large-company S&P 500 index closed at 4,138 on 4/14/23, up 0.7% since the end of March, and extending its year-to-date (YTD) price return (not including dividends) to 7.8%. Both the Nasdaq Composite (large-company, technology-centric) and Russell 2000 (small-company) indices were lower in April, down 0.8% and down 1.2%, respectively. March consumer inflation (as measured by the consumer price index, CPI) reported monthly by the Bureau of Labor Statistics (BLS), increased 5.0% year-over-year (Y/Y) and just 0.1% from the prior month (M/M). Both numbers reflected a lower-than-expected increase, and the Y/Y CPI, since peaking at 9.1% in June 2022, has posted nine consecutive lower monthly Y/Y increases. Over the past two months, lower energy (gasoline and other fuels) prices drove the better inflation data, and "core CPI," which excludes the energy and food categories, increased 5.6% Y/Y in March. Not only was core CPI higher than the headline CPI (for the first time since December 2020), but also Y/Y core inflation increased from 5.5% in February. Within core inflation, we are watching prices for services compared to goods because much of the inflation pressure over the past year was driven by services, led by shelter (rents and home ownership) as well as travel, entertainment, and medical care. Shelter costs have continued to increase on a Y/Y basis, but the M/M increase was lower in March, perhaps indicating that the impact of easing rents and home prices is beginning to filter through the data. As this continues, we expect core CPI to resume Y/Y improvement, however, 5.6% remains significantly above the Federal Reserve Bank's 2.0% target and is unlikely to reach that range in 2023. U.S. retail sales, reported monthly (survey of retail stores and restaurants) by the Census Bureau, decreased 1.0% M/M in March, although previously reported February data was revised higher. On a Y/Y basis (excluding gasoline and vehicle sales), retail sales increased 6.3%, which compared to 8.3% in February and 9.5% in January. This indicates some slowing of momentum in consumer spending, and also supports our view that consumer spending was bolstered in early 2023 by some pent-up holiday demand as well as warm winter weather across much of the country.

An early round of first quarter 2023 (1Q23) bank earnings were mostly well-received, and S&P 500 Financials led sector gains last week. A handful of the largest U.S. banks reported financial results on 4/14/23, with all beating consensus EPS expectations and generally reporting gains in deposits, modest increases in deposit costs, and positive data on loan loss reserves. The S&P 500 Financials sector gained 2.9% on the week, the top weekly performance of the 11 global industry classification (GICS) sectors, although remained down 4.0% YTD. Solid performance was largely expected from the largest banks, however, as many of the institutions likely benefitted from the early March bank crisis as customers shifted deposits to the perceived safety of the bank leaders. We expect more volatility among mid-sized and smaller banks as they report earnings results over the next several weeks, with more uncertainty regarding funding costs and loan growth.

Earnings season begins to build this week with 60 S&P 500 companies scheduled to report 1Q23 financial results. According to FactSet, S&P 500 earnings are estimated to decline 6.5% in the quarter, reflecting the second consecutive quarter of negative earnings growth. Revenues are expected to increase 2.0%, which suggests that companies likely faced margin pressures that could ease later in 2023 if lower inflation trends continue.

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