



**The Weekly Market Update – 1/23/23: Retail Sales Reflect Consumer Challenges**

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	3,972.61	-0.66%	3.47%	3.47%	-16.65%	4,796.56	20.7%
Dow Jones Industrial Average	33,375.49	-2.70%	0.69%	0.69%	-8.15%	36,799.65	10.3%
NASDAQ Composite	11,140.43	0.55%	6.44%	6.44%	-28.79%	16,057.44	44.1%
Russell 2000	1,867.34	-1.04%	6.02%	6.02%	-16.83%	2,442.74	30.8%
MSCI EAFE (USD)	2,080.41	0.00%	7.02%	7.02%	-10.94%	2,398.71	15.3%
MSCI Emerging Markets (USD)	1,036.24	0.62%	8.35%	8.35%	-15.89%	1,444.93	39.4%
Bloomberg Commodity Index	112.13	0.49%	-0.60%	-0.60%	13.07%	237.95	112.2%
Barclays U.S. Aggregate Bond	91.41	0.15%	2.84%	2.84%	-12.72%	112.07	22.6%

Source: FactSet

**U.S. consumer resiliency was tested in late 2022 as retail spending slowed considerably.** December retail sales (Advance Monthly Sales for Retail and Food Services reported by the U.S. Census Bureau) decreased 1.1% sequentially from November (month-to-month, M/M) on a seasonally adjusted basis. This was the second consecutive M/M decline as November retail sales dipped 1.0%. While lower pump prices for gasoline (gas sales dropped 4.6% M/M) contributed to the December weakness, sales excluding vehicles and gasoline dropped for the past two months as well (including -0.7% in December). The data missed the FactSet consensus (from Wall Street economists) estimate, and we believe reflected weakening consumer demand, an indication that numerous Federal Reserve Bank (Fed) interest rate increases in 2022 are having the desired effect (slower economic growth). The weaker spending trends were reflected in the monthly year-over-year (Y/Y) data as well. Retail sales in December 2022, compared to December 2021, increased 5.3%, reflecting nominal growth, but trailing the December consumer price index (CPI, reported by the Bureau of Labor Statistics) of 6.5%. Since growing 10.9% Y/Y in August 2022, the monthly increase of retail sales has receded four consecutive months, and the fourth quarter (4Q22) change was +6.4% compared to +9.5% in 3Q22. Consumer spending was a bright spot of U.S. economic growth in 2022, with the contribution to gross domestic product (GDP, reported by the Bureau of Economic Analysis) increasing in each quarter. While the consumer contribution to 4Q22 GDP (not yet reported) is estimated to remain solidly positive, the declining growth of retail sales in 4Q22, along with the Fed's expectation that jobs growth will stall, suggests that consumer spending growth in early 2023 faces headwinds that could weigh on growth and earnings estimates. While we continue to believe that a mild (flat to down 1.0%) recession (defined as a decline in economic activity that is spread across the economy) is possible in 2023, we also believe that equity investors have assessed the potential for a modest economic decline. For now, equities have rallied in 2023, in our view, due to the expectation that the Fed will soon pause its path of interest rate increases.

**As fourth quarter (4Q22) earnings season heats up this week, we believe that revenue growth will be an important metric as well.** Through the morning of 1/23/23, 12% of the S&P 500 had reported financial results for 4Q22. The FactSet consensus earnings estimate for the S&P 500 expects a 5.1% decline, while sales are estimated to grow 3.7%. As we discussed last week, this indicates that corporate margins are expected to decrease, but it should also be noted that revenue growth of 3.7% in 4Q22 is well below the 4Q22 inflation (CPI) rate of 7.1%. In our view, this suggests that the ability for many companies to raise prices to keep pace with inflation is limited, which could continue in 2023. With inflation trends improving in the second half of 2022 (six consecutive months of lower inflation increases), we expect the inflation headwinds to improve as 2023 unfolds.

**The final full week of January includes a full calendar of earnings and economic data releases.** Investors will watch corporate earnings with 93 S&P 500 constituents scheduled to report. The end of the week (Thursday and Friday) includes key data on U.S. fourth quarter GDP, personal income, spending and savings, and the Fed's preferred consumer inflation indicator, the personal consumption expenditure (PCE) price index. The FactSet consensus estimate for 4Q22 GDP growth is 2.1%, and the December PCE price index is estimated to show an inflation rate of 5.0%.

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