## The Weekly Market Update – 1/3/23: : S&P 500 Index Posts its Weakest Year Since 2008

| Major Indices (Price Returns) | Close | Last Week | Quarter-to-Date | Year-to-Date | Trailing 12-Months | All-Time High | % to High |
|---|---|---|---|---|---|---|---|
| S&P 500 | 3,839.50 | -0.14% | 7.08% | -19.44% | -19.44% | 4,796.56 | 24.9% |
| Dow Jones Industrial Average | 33,147.25 | -0.17% | 15.39% | -8.78% | -8.78% | 36,799.65 | 11.0% |
| NASDAQ Composite | 10,466.48 | -0.30% | -1.03% | -33.10% | -33.10% | 16,057.44 | 53.4% |
| Russell 2000 | 1,761.25 | 0.02% | 5.80% | -21.56% | -21.56% | 2,442.74 | 38.7% |
| MSCI EAFE (USD) | 1,943.93 | 0.02% | 17.00% | -16.79% | -16.79% | 2,398.71 | 23.4% |
| MSCI Emerging Markets (USD) | 956.38 | 0.17% | 9.20% | -22.37% | -22.37% | 1,444.93 | 51.1% |
| Bloomberg Commodity Index | 112.81 | 0.22% | 1.18% | 13.75% | 13.75% | 237.95 | 110.9% |
| Barclays U.S. Aggregate Bond | 88.88 | -0.72% | 1.33% | -15.13% | -15.13% | 112.07 | 26.1% |

*Source: FactSet*

**Despite fourth quarter (4Q22) gains, U.S. equities markets were lower for the year, and many indices posted the weakest returns in more than a decade.** The widely-followed, large-company S&P 500 index delivered a 4Q22 price return (not including dividends) of +7.1%, as gains in October (+8.0%) and November (+5.4%) exceeded a December decline (-5.9%). But those final quarter gains did not fully erase losses in prior quarters (1Q22 price return was -5.0%, 2Q22 was -16.4%, and 3Q22 was -5.3%) as the S&P 500 ended 2022 down -19.4%. This was the first down year for the index since a -6.2% price decline in 2018, and the worst calendar year performance in 14 years since a -38.5% price decline in 2008. The S&P 500 closed 2022 at a level of 3,840, vs. 4,766 at the end of 2021, but 7.4% above the 2022 closing low price of 3,577 on 10/12/22. Investors faced numerous challenges in 2022 as the year began with elevated consumer inflation (the consumer price index, CPI, is reported monthly by the Bureau of Labor Statistics, BLS) and ongoing COVID-19 concerns due to the Omicron variant. Commodities prices, especially oil and agricultural products, surged when Russia invaded Ukraine, and the U.S. Federal Reserve Bank (Fed), in March, began raising short-term interest rates for the first time since 2018. While U.S. gross domestic product, or GDP (the value of goods and services produced in the period reported by the Bureau of Economic Analysis), was negative in 1Q22 and 2Q22, growth rebounded to 3.2% in 3Q22 and is estimated (according to the FactSet consensus of Wall Street economists) to have increased 1.1% in 4Q22, 1.9% for the full-year 2022. Even with lower GDP in the first half of the year, corporate financial results exceeded expectations, and S&P 500 earnings per share (EPS) increased 9.8% year-over-year (Y/Y) in 1Q22, and +6.9% Y/Y in 2Q22. This helped to deliver a full-year expected EPS growth rate of 5.9% in 2022 (vs. 2021) even with much lower expected earnings results in the second half of the year. S&P 500 EPS growth was just 3.6% in 3Q22, and the FactSet consensus estimate for 4Q22 S&P 500 EPS is a decline of -2.0%. With the Fed having raised its overnight bank lending fed funds interest rate target range by 425 basis points in 2022 (currently 4.25% to 4.50%, from 0% to 0.25% at the beginning of 2022), U.S. Treasury yields for both 2-year and 10-year Treasury bonds moved to the highest levels in 15 years in 2022. This weighed on equity prices throughout the year, but we attribute 4Q22 gains in equities to investor optimism that the Fed will pause its higher interest rate path and that U.S. economic results could exceed expectations.

**As 2023 begins, many headwinds and investor uncertainty remain, but inflation expectations have softened.** While consumer spending was resilient (better than expected) in 2022 as the U.S. economy added jobs and wages increased (according to the BLS), consumers were saving less (BEA) to supplement spending. The CPI, which peaked at 9.1% in June 2022, remained at 7.1% in November, a notable improvement but well above the Fed's 2.0% target. Inflation expectations over the next five years (using the U.S. Inflation-indexed Treasury bonds) were 2.3% as of 12/31/22, vs. 3.6% six months earlier. We believe that the Fed will pause its fed funds hike close to 5.0% (suggesting more rate hikes), but that should be completed by March 2023. We see continued volatility in equities ahead.

**Following the Monday holiday, a four-day trading week to begin 2023 will be highlighted by the December employment data on Friday**. The FactSet consensus looks for a December increase of 210 thousand (K) nonfarm payrolls (BLS data). An unemployment rate of 3.7% and average hourly earnings (wages) up 5.0%. Over the prior three months, jobs gains averaged 272K.

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