D|A|DAVIDSON
WEALTH MANAGEMENT

The Weekly Market Update – 2/6/23: Huge January Jobs Gains Create Market Uncertainty

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,136.48	1.62%	7.73%	7.73%	-8.39%	4,796.56	16.0%
Dow Jones Industrial Average	33,926.01	-0.15%	2.35%	2.35%	-3.43%	36,799.65	8.5%
NASDAQ Composite	12,006.96	3.31%	14.72%	14.72%	-15.68%	16,057.44	33.7%
Russell 2000	1,985.53	3.88%	12.73%	12.73%	-2.12%	2,442.74	23.0%
MSCI EAFE (USD)	2,119.00	0.46%	9.01%	9.01%	-4.65%	2,398.71	13.2%
MSCI Emerging Markets (USD)	1,038.71	-1.19%	8.61%	8.61%	-14.03%	1,444.93	39.1%
Bloomberg Commodity Index	107.07	-4.07%	-5.08%	-5.08%	-0.73%	237.95	122.2%
Barclays U.S. Aggregate Bond	91.39	-0.06%	2.83%	2.83%	-10.59%	112.07	22.6%

Source: FactSet

A strong jobs report in January helps the economic soft-landing narrative, but also could force additional Federal Reserve Bank (Fed) interest rate hikes. According to the Bureau of Labor Statistics (BLS), the U.S. economy added 517 thousand (K) nonfarm payrolls (jobs) in January, significantly outpacing the FactSet consensus (from Wall Street economists) estimate for a 185K monthly gain. January jobs exceeded the average monthly gain of 291K in the fourth quarter and reversed a five-month trend of lower jobs increases. The bulk of new jobs were created in service sectors, led by leisure and hospitality, professional and business services, and government (primarily state and local), but gains spanned multiple sectors and most groups saw more new jobs in January 2023 than the average monthly gains for all of 2022. The January 2023 unemployment rate dropped to 3.4%, a 53-year low, and wages (as measured by average hourly earnings) increased 4.4%, compared to 4.9% in December 2022; this was the lowest year-over-year (Y/Y) monthly increase since August 2021. We have two conflicting takeaways from the January jobs report. First, jobs growth in January, along with an increase in Job openings in December (from the BLS' Jobs Openings and Labor Turnover Survey), reflects a strong labor market that reduces the likelihood that a U.S. recession (a significant decline in economic activity across the economy) is imminent. Our second takeaway is that a tight labor market could extend current Fed policy to raise short-term interest rates, as the Fed has expected a slowing labor market from its higher interest rate policy that began nearly one year ago. If January's labor market strength continues in February, we believe the Fed is more likely to announce ongoing rate hikes, and to keep short-term interest rate targets higher for longer. Typically, strong jobs data drives positive investor sentiment, supporting higher equity prices, but the widely-followed, large-company S&P 500 index dropped more than 1% on 2/3/23 following the report. The potential for the Fed to remain restrictive, in our view, limits equity market upside as 2023 unfolds.

While the Fed raised its fed funds interest rate target range for the eighth consecutive Federal Open Market Committee (FOMC) meeting, the policy and press conference were interpreted as dovish. The Fed announced a 0.25% hike to its overnight bank lending fed funds target to a range of 4.50% to 4.75%. Since March 2022, the Fed has increased the target range at eight consecutive meetings for a total of 450 basis points (bp). The continued hiking policy without a pause reflects the Fed's concern that inflation (despite recent progress) remains a significant risk to U.S. economic stability, such that restrictive monetary policy (in the form of higher interest rates) remains appropriate. While the stated policy is hawkish (tight policy to slow growth), it is clear that Fed policy is turning less restrictive as the last three FOMC meetings reflect a slowing pace of rate hikes (75bp in November 2022, 50bp in December, now 25bp in February 2023). In addition, Fed Chairman Powell indicated that inflation trends are moderating, and could allow the Fed to soon pause its fed funds hiking policy.

Earnings reports will retain center stage in the week ahead, as 95 S&P 500 index companies are scheduled to report fourth quarter (4Q22) results. As of early Monday, with 51% of S&P 500 companies having reported, earnings results were down -6.8% Y/Y, while sales were up 5.2%. While sales have exceeded expectations (FactSet consensus), earnings have missed estimates. This is an indication of margin pressures on results, likely caused by costs rising faster than offsetting price increases. 2023 earnings estimates reflect 2.7% growth, vs. 5.0% estimated on 12/31/22.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

Important Disclosure: The information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publically traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.