



**The Weekly Market Update – 2/27/23: January Consumer Data Stays Hot**

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	3,970.04	-2.67%	3.40%	3.40%	-12.08%	4,796.56	20.8%
Dow Jones Industrial Average	32,816.92	-2.99%	-1.00%	-1.00%	-6.59%	36,799.65	12.1%
NASDAQ Composite	11,394.94	-3.33%	8.87%	8.87%	-19.98%	16,057.44	40.9%
Russell 2000	1,890.49	-2.87%	7.34%	7.34%	-6.80%	2,442.74	29.2%
MSCI EAFE (USD)	2,035.26	-2.48%	4.70%	4.70%	-8.42%	2,398.71	17.9%
MSCI Emerging Markets (USD)	971.87	-2.76%	1.62%	1.62%	-19.56%	1,444.93	48.7%
Bloomberg Commodity Index	105.55	-0.92%	-6.43%	-6.43%	-2.15%	237.95	125.4%
Barclays U.S. Aggregate Bond	88.78	-0.96%	-0.11%	-0.11%	-13.14%	112.07	26.2%

Source: FactSet

**Positive January data on income and spending further validated a rebound in consumer activity to begin 2023 (following weak data in November and December last year).** The U.S. Bureau of Economic Analysis (BEA) report on Personal Income and Outlays showed that January personal income increased 0.6%, the highest level in three months. Personal consumption expenditures (PCE) increased 1.8%, the highest month-to-month (M/M) percentage spending increase since January 2022. Income gains were driven primarily by higher private wages and salaries. While government Social Security benefits included an 8.7% cost of living adjustment, this was more than offset by the expiration of the extended child care tax credit. Spending gains reflected growth in both goods (strong motor vehicles and parts) and services (food services, the largest contributor), and while higher prices contributed to growth, inflation-adjusted PCE grew a strong 1.1%. Combined with other strong January consumer data, jobs data from the Bureau of Labor Statistics (BLS), and retail sales reported by the Census Bureau, it appears that strong consumer activity has driven better-than-expected economic growth trends in the first quarter of 2023 (1Q23). The estimate of gross domestic product, or GDP (the value of goods and services produced), growth from the Atlanta Federal Reserve Bank (GDPNow) was 2.7% as of 2/24/23. The personal savings rate (savings as a percentage of disposable income) was 4.7%, the fourth consecutive M/M increase and above the June 2022 savings rate low of 2.7%. We caution that one month of surging spending does not establish a trend and January data is often misleading due to seasonal adjustments (spending also surged in January 2022 but then slowed). In addition, the higher M/M savings rate suggests that consumers are more cautious, which could lead to lower spending in upcoming periods. Also included in the BEA report was the PCE price index, which is the Federal Reserve Bank's (Fed) preferred measure of consumer inflation (an alternative to the BLS' consumer price index). The January PCE price index increased 5.4% year-over-year, and 0.6% M/M. Both numbers were higher than expected and both were higher than the previous month. This ended the trend of recent improvements in recent inflation data, suggesting the Fed still has work to do to fight inflation, which likely means continued interest rate hikes and keeping those target interest rates higher for longer.

**The Fed minutes of its 2/1/23 Open Market Committee (FOMC) meeting provided additional context to the decision to raise short-term interest rate targets at that meeting.** On 2/1/23, the Fed raised its overnight bank lending fed funds interest rate target range by 0.25% to 4.50% to 4.75%. At the meeting, participants discussed that previous rate hikes (the fed funds target was 0% to 0.25% one year ago) had slowed interest rate sensitive economic sectors (housing and business investment) but that labor conditions remained tight (strong jobs market). Also discussed was a likely course of additional interest hikes (to at least 5.00%) and then holding at the peak level throughout 2023. This was before several strong January consumer and inflation data reports, possibly leading to a higher interest rate outlook when the FOMC meets again on 3/22/23.

**With 4Q22 earnings reporting season winding down, many companies are presenting at investment conferences this week.** Through early Monday, 94% of S&P 500 companies had reported 4Q results with earnings down 5.2% vs. 4Q21. The current FactSet consensus (from Wall Street analysts) estimate for 1Q23 earnings is -4.9%. We expect companies to provide updates on current business trends at conferences this week as we head into March 2023.

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