The Weekly Market Update – 4/3/23: Equities Deliver Strong Quarterly Gains

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,109.31	3.48%	7.03%	7.03%	-9.29%	4,796.56	16.7%
Dow Jones Industrial Average	33,274.15	3.22%	0.38%	0.38%	-4.05%	36,799.65	10.6%
NASDAQ Composite	12,221.91	3.37%	16.77%	16.77%	-14.05%	16,057.44	31.4%
Russell 2000	1,802.48	3.89%	2.34%	2.34%	-12.93%	2,442.74	35.5%
MSCI EAFE (USD)	2,092.60	3.74%	7.65%	7.65%	-4.08%	2,398.71	14.6%
MSCI Emerging Markets (USD)	990.28	1.86%	3.55%	3.55%	-13.27%	1,444.93	45.9%
Bloomberg Commodity Index	105.51	2.41%	-6.47%	-6.47%	-15.19%	237.95	125.5%
Barclays U.S. Aggregate Bond	91.09	-0.50%	2.48%	2.48%	-6.88%	112.07	23.0%

Source: FactSet

U.S. equity markets closed the first quarter of 2023 (1Q23) with strong gains as January and March rallies bookended a February decline. As 1Q23 came to a close on Friday, 3/31/23, the widely followed, large-company S&P 500 equity index increased (price gain, not including dividends) 7.0%, its second consecutive positive quarter, nearly matching the 4Q22 price return of 7.1%. The quarter-end index price level of 4,109 was 14.9% above the market closing low during the current cycle set on 10/12/22 (nearly six months ago) but remained well below the index's all-time closing high of 4,797 set on 1/3/22 (15 months ago). Gains were driven by a handful of industry sectors (using the eleven Global Industry Classification Standards, or GICS), as just three of those sectors exceeded the index increase: Information Technology, Communications Services, and Consumer Discretionary. Not only did that handful of sectors drive overall equity market gains, but the dispersion was wide across the quarter. The top-performing sector, Technology, gained 21.5% in 1Q23, while the lowest-performing sector, Financials, declined 6.0%. Investor sentiment shifted throughout the quarter as January economic data surprised to the upside, driving strong gains in many companies that had underperformed in 2022. February included a 0.25% increase in the Federal Reserve Bank's (Fed) overnight fed funds interest rate target, a slower pace than 0.75% and 0.50% increases at six consecutive Fed meetings to end 2022. But then February inflation data (consumer price index from the Bureau of Labor Statistics, BLS) was higher than expected, stoking fears that slowing the pace of interest rate hikes was premature. An early March banking scare, driven by higher interest rates and deposit withdrawals, added further uncertainty to the economic recovery, but also led to a drop in interest rates as a tighter banking system (slower loan growth) could further limit the economy. The Fed raised its fed funds target by an additional 0.25% at its March meeting but signaled that its year-long policy of raising rates to fight inflation was nearly completed. Surprisingly, despite the bank deposit scare and underperformance of the Financials sector, the S&P 500 gained 3.5% in March. Seven of the 11 GICS sectors were positive for the month, although gains became more concentrated in a handful of the largest growth- and technology-centric companies, as well as defensive sectors (such as Utilities and Consumer Staples) that typically deliver more consistent financial results during economic slowdowns.

Solid economic data was a key surprise in 1Q23 and had led to upward revisions in GDP growth estimates. Gross domestic product, or GDP, is reported quarterly by the Bureau of Economic Analysis, and measures the value of goods and services produced in the period. As of 12/31/22, the FactSet consensus (from Wall Street economists) for 1Q23 GDP growth was -0.3%. On 3/31/23, the revised estimate was +1.5%. We attribute the improved economic outlook to strong consumer data including retail sales (Census Bureau), job gains, and wage growth (BLS). We caution, however, that strong consumer spending to start the year could be tied to weak trends in December (pent-up demand) and/or a relatively mild winter in many geographies. The impact of the banking fears remains uncertain.

The first week of the second quarter includes an important jobs report that will be released on the Good Friday market holiday. The BLS will release its March employment report on 4/7/23. Net new jobs surged 504 thousand (K) in January and 311K in February, well above the 4Q22 average monthly increase of 284K. The FactSet consensus estimate for March jobs gains is 240K, reflecting moderating growth, but still higher than expected at the beginning of 2023.

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