D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 5/8/23: Labor Market Resilient While Fed Hikes

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,136.25	-0.80%	0.66%	7.73%	0.10%	4,796.56	16.0%
Dow Jones Industrial Average	33,674.38	-1.24%	1.20%	1.59%	2.11%	36,799.65	9.3%
NASDAQ Composite	12,235.41	0.07%	0.11%	16.90%	-0.80%	16,057.44	31.2%
Russell 2000	1,759.88	-0.51%	-2.36%	-0.08%	-5.59%	2,442.74	38.8%
MSCI EAFE (USD)	2,144.63	0.04%	2.49%	10.32%	5.45%	2,398.71	11.8%
MSCI Emerging Markets (USD)	981.66	0.47%	-0.87%	2.64%	-8.78%	1,444.93	47.2%
Bloomberg Commodity Index	102.96	-1.30%	-2.42%	-8.73%	-20.49%	237.95	131.1%
Barclays U.S. Aggregate Bond	91.35	-0.14%	0.29%	2.77%	-2.68%	112.07	22.7%

Source: FactSet

Despite slowing jobs growth, the U.S. economy created more new jobs than expected in April, indicating that consumer spending trends are likely to remain healthy. According to the U.S. Bureau of Labor Statistics (BLS), the labor market created 253 thousand (K) new jobs in April, well above the 179K FactSet consensus estimate (compiled from Wall Street economists), as monthly gains continued across multiple key industries (including professional/business services, healthcare, leisure and hospitality, financial services, and government). April employment gains were tempered by 149K of combined downward revisions to previously issued jobs reports for February (new number +248K) and March (+165K). The rolling 3-month average monthly jobs gains (a better trend gauge than just one month) dropped to 222K, down from 284K at the end of last year and the lowest 3-month average since January 2021. For the past 15 months, the U.S. Federal Reserve Bank (Fed) has repeatedly raised its short-term overnight bank lending fed funds interest rate target in an attempt to slow inflation by restricting economic growth, including employment. After slowing in November and December of 2022, employment gains surged in January 2023 (+472K), coinciding with strong consumer spending in January. Although consumer spending levels (personal consumption expenditures reported by the Bureau of Economic Analysis, or BEA) moderated in February and March, the January strength led to a stronger-than-expected consumer contribution in the first quarter GDP report (gross domestic product reported by the BEA measures the value of goods and services produced). In our view, a stronger labor market in April is likely to be correlated with another strong month for consumer spending, providing a solid economic start to the second quarter. While we still expect the U.S. economy to slow in the quarters ahead, the April jobs report was a positive surprise.

We view last week's Federal Reserve policy decision as a "hawkish pause." At the Federal Open Market Committee (FOMC) meeting that ended on 5/3/23, the Fed raised its fed funds target by 0.25%, marking the tenth consecutive meeting (starting in March 2022) that included an interest rate increase. From a range of 0% to 0.25% in March 2022, the current fed funds target range is now 5.00% to 5.25%. In the post-meeting statement, the Fed removed previous references to "future increases" in rates and Fed Chair Jerome Powell indicated that committee members discussed that at some point it is appropriate to pause the rate hikes (with no specific timeline outlined). We call this a "hawkish pause", because although the Fed raised the rate target (the Fed raising interest rates is considered hawkish, while lowering rates is dovish), we believe this could be the last of the fed funds target increases in this cycle. But because consumer spending trends (discussed above) appear to have rebounded in April, the Fed, even if it stops hiking rates, is likely to keep the fed funds target at 5.00% to 5.25% for the foreseeable future.

First quarter (1Q23) earnings reports reflect positive surprises and investors await a key May inflation report. Through Friday, 5/5/23, 85% of S&P 500 constituents had reported 1Q23 financial results. Collectively, earnings were down 1.6%, but this was significantly better than the 6.6% decline expected at the end of March. Earnings for 4Q22 declined 4.6%, leading to low expectations for the first quarter, and we view the results so far as a significant positive surprise. On 5/10/23, the BLS will report the May consumer price index (CPI, a widely followed measure of consumer inflation), which is estimated to show a year-over-year (Y/Y) gain of 5.0%, unchanged from April. Core CPI (excludes food and energy prices) is expected +5.4% Y/Y in May (vs. 5.6% in April).

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Please refer to page 2 of this report for detailed disclosure information.

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