

Weekly Market Update



General Market News

- The Federal Reserve (Fed) increased its policy rate by 25 basis points (bps) at last week's Federal Open Market Committee (FOMC) meeting, bringing the target range between 4.5 and 4.75 percent. This marks a slowdown in pace for the Fed's rate hikes, but Chairman Jerome Powell aimed to avoid giving any indication that the job was close to done. "Inflation data received over the past three months shows a welcome reduction in the monthly pace of increases," Powell said in his post-meeting press conference. "And while recent developments are encouraging, we will need substantially more evidence to be confident that inflation is on a sustained downward path." While acknowledging that, "We can now say, I think for the first time, that the disinflationary process has started," he went on to note that it would be "very premature to declare victory or to think we really got this." U.S. Treasury yields changed modestly over last week. The 2-year and 5-year gained 2 bps to (4.2 percent) and 6 bps (to 3.66 percent), respectively. The 10-year and 30-year fell 12 bps (to 3.39 percent), and 8 bps (to 3.54 percent).
- The Russell 2000 and Nasdaq Composite indices led the way last week as investors interpreted the FOMC's January rate decision. The slower increase of 25 bps from December was just half of December's increase of 50 bps. While widely expected, the market rallied on the FOMC slowing its pace of rate increases. The slower pace led investors to speculate that the Fed was near the end of its quest of taking policy actions to tame inflation. The top-performing sectors were communication services, technology, and consumer discretionary. This came as Meta Platforms (META) announced a greater reduction of expenses by \$5–10 billion and a \$40 billion stock buyback plan. Technology and consumer discretionary moved higher despite weakness in Amazon and Apple earnings. Sectors that struggled last week included energy, utilities, and health care. Stocks closed lower on Friday as stronger-than-expected employment report gave the Fed an additional reason to continue rate hikes.
- Last week was a busy one in terms economic policy and releases. Tuesday saw the release of the **Conference Board's Consumer Confidence Index** for January. Consumer confidence declined modestly during the month, but the index remained well above the recent low of 95.3 that it hit in July 2022. Consumer views on the present economic situation improved to start the year; however, souring expectations lead to a headline decline for the index.
- The FOMC announced its **federal funds rate decision** on Wednesday. The Fed hiked the federal funds rate by 25 bps at its February meeting, which was in line with investor and economist expectations.
- Friday wrapped with the **employment report** and **ISM Services index** for January. Hiring surged past expectations in January, with 517,000 jobs added during the month against calls for a more modest 188,000 additional jobs. The unemployment rate also unexpectedly declined to a 53-year low of 3.4 percent to start the year. Service sector confidence rebounded notably in January following a sharp decline in December, driven by increased demand for services, as new orders and business activity improved.

Market Index Performance Data

EQUITIES

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.64	1.48	7.86	-6.57
Nasdaq Composite	3.33	3.65	14.77	-14.12
DJIA	-0.15	-0.47	2.44	-1.28
MSCI EAFE	0.46	0.88	9.05	-3.07
MSCI Emerging Markets	-1.18	0.70	8.65	-12.44
Russell 2000	3.90	2.79	12.81	0.60

Source: Bloomberg, as of February 3, 2023

FIXED INCOME

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	-0.05	3.02	-7.56
U.S. Treasury	-0.22	2.28	-7.91
U.S. Mortgages	0.06	3.36	-6.77
Municipal Bond	0.12	2.99	-3.59

Source: Bloomberg, as of February 3, 2023



What to Look Forward To

This week will be on the lighter side in terms of economic data. Tuesday will see the release of the **trade balance** and **consumer credit** reports. The monthly trade deficit is expected to widen in December following a larger-than-expected tightening in November.

Finally, the week will wrap Friday with the **University of Michigan consumer sentiment survey**. Consumer sentiment is expected to increase modestly, which would mark three consecutive months of improving confidence.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Rev.02/23.

Authored by the Investment Research team at Commonwealth Financial Network®