U.S. Market Commentary

The Markets

Both equity and bond markets staged a rebound in January amid cooling inflation and rising expectations for a pause in interest rate hikes.

Market Indices	January 2023	Year-to-Date
Dow Jones Industrial Average	2.9%	2.9%
S&P 500 Index	6.3%	6.3%
NASDAQ Composite	10.7%	10.7%
MSCI World Index	7.1%	7.1%
Bloomberg US Aggregate Bond Index	3.1%	3.1%
Bloomberg Global Aggregate Bond Index	3.3%	3.3%

The Economy

The US economy provided mixed signals once more, as data released in January suggested a continued slowdown in several sectors. Headline price pressures eased again during the month, providing further support that the peak in inflation was left behind in Summer 2022. The year-over-year growth in the Consumer Price Index fell to 6.4 percent from 6.5 percent in December, notching its seventh successive month of decline. The core element, which strips out volatile components such as food and energy, also fell to 5.6 percent from 5.7 percent in the prior month. Conversely, both the CPI and Core CPI surprised to the upside month-over-month, increasing 0.4 percent and 0.5 percent, respectively, and above consensus forecasts. Producer prices followed suit, as the Producer Price Index (PPI) rose by 0.7 percent in January (the Core PPI rose by 0.6 percent over the same period).

In other areas of the economy, monthly reports were mostly downbeat with the job market being the primary outlier. The ISM Purchasing Manager's Index continued to point to a decline in manufacturing activity, falling to 47.4 compared to 48.4 in December. The American consumer was mixed, as confidence and sentiment diverged during the month. The Conference Board's Consumer Confidence Index fell by 3.0 points to 106.0 from a revised 109.0 in January as consumers were somewhat pessimistic about the short-term outlook for jobs. The Expectations Index of the survey, which measures consumers' short-term outlook for income, business and labor market conditions, fell by 5.6 points and remains below 80.0 which often signals a recession within the next year. On the other hand, the University of Michigan Consumer Sentiment Index was a bit more upbeat, rising to 64.9 from 59.7 in the prior month as consumers cited stronger incomes and cooling inflation as sources of optimism for personal finances. As for housing, homebuying activity continued to drag as mortgage rates remain above desirable levels for many potential purchasers. Housing starts declined by 5.3 percent in January, falling to an annual pace of 1.309 million from 1.382 million in the prior month. Permits to build were mostly flat, rising slightly to 1.339 million from 1.330 million. As for closing transactions, existing home sales diminished slightly to 4.00 million from 4.02 million, while new home sales increased to 670k from 616k.

On the positive side, January's labor market data revealed that fears of mass layoffs have perhaps been premature. Despite the evident contractions in other sectors of the economy, January's job data was surprisingly strong with 517k job gains, led by gains in leisure and hospitality. This pushed the unemployment rate to a new post-pandemic low of 3.4 percent, reigniting conversations about the US economy's resilience. Average hourly earnings also continued to expand, rising by 0.3 percent over the previous month. Moreover, consumer spending and core retail sales bounced back after two months of decline, climbing by 1.8 percent and 2.3 percent, respectively. The robust consumer data undoubtedly reinforces the Fed's intent to keep interest rates higher for longer, regardless of investors' anticipation for a rate cut in late 2023.