

Weekly Market Recap

February 6, 2023

Index	Price	Price Returns	
	Close	Week	YTD
S&P 500 [®] Index	4,136	1.6%	7.7%
Dow Jones Industrial Average	33,926	-0.2%	2.3%
NASDAQ	12,007	3.3%	14.7%
Russell 2000 [®] Index	1,986	3.9%	12.7%
MSCI EAFE Index	2,134	1.2%	8.5%
Ten-Year Treasury Yield	3.52%	0.0%	-0.4%
Oil WTI ¹ (\$/bbl ²)	\$73.23	-8.1%	-8.8%
Bonds ³	\$99.82	-0.3%	4.2%

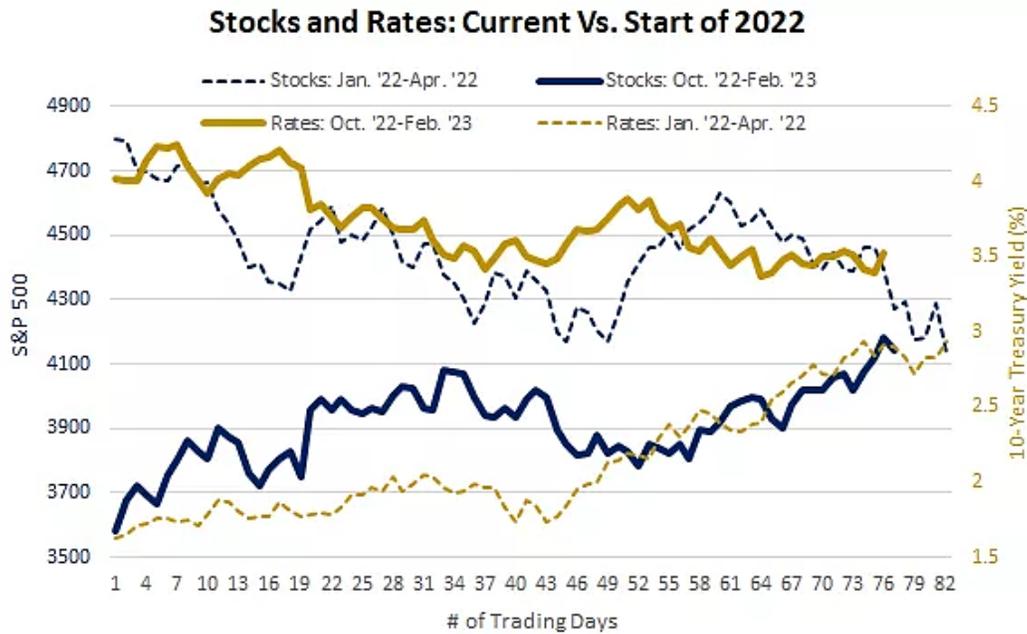
¹WTI = West Texas Intermediate Oil. ²bbl = Barrel. ³Bonds are represented by the iShares U.S. Aggregate Bond ETF. Sources: Bloomberg L.P.; FactSet.

Last Week:

U.S. Equity Market

- U.S. large-cap equities (S&P 500 Index) rose +1.6% as economic data and Federal Reserve (Fed) commentary continued to support the narrative of a soft landing due to declining inflation, a resilient labor market, and expectations that the Fed is nearing the end of its rate-hiking cycle. The Fed expectedly raised rates by 25 basis points (bps) to 4.50-4.75% at its meeting on February 3, and the biggest surprise was Fed Chair Jerome Powell's more dovish tone in the follow-up press conference. Futures markets are now expecting short-term rates to top out at 5% in the March meeting. January nonfarm payrolls reported 517k, well ahead of expectations for 190k, which suggests that strength remains in the labor market. According to FactSet's latest Earnings Insight report, thus far (with 50% of the S&P 500 Index reported), the blended earnings decline for the quarter is -5.3%, lower than the -3.2% decline expected as of December 31. The ten-year yield was flat at 3.5%. Gold fell -2.4% and WTI dropped -8.1%.
- S&P 500 Index Sector Returns:
 - Communication services (+5.3%) rose, led by Meta Platforms (beat earnings expectations), internet, streaming, and telecom stocks.
 - Technology (+3.8%) outperformed, led by software and semiconductor stocks.
 - Consumer discretionary (+2.3%) rose, led by travel, auto, retail, restaurants, homebuilders, and Amazon.
 - Industrials (+1.7%) rose, led by transportation/logistics, airlines, and railroads, which offset weakness in the aerospace and defense stocks.
 - Real estate investment trusts (REITs) (+1.5%) rose, with strength in data centers, hotels, and public storage.
 - Financials (+0.9%) rose, led by the banks and credit cards.
 - Materials (+0.3%) underperformed, with weakness in precious metals miners and chemical companies.
 - Consumer staples (+0.6%), healthcare (-0.1%), and utilities (-1.5%) underperformed, as investors favored less-defensive stocks.
 - Energy (-5.9%) underperformed, as the price of WTI fell -8.1%.

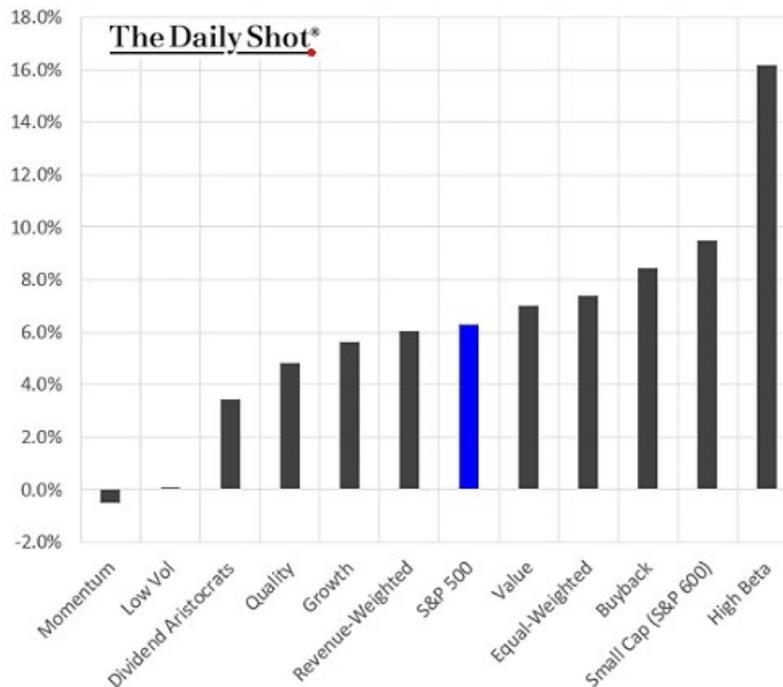
- The chart below shows the comparison between equity performance (S&P 500 Index) and interest rates (ten-year Treasury Yield) from January-April 2022 when stocks fell and interest rates rose. From October 2022 to February 2023, stocks rallied while interest rates declined, which supports the inverse relationship between equity performance and interest rates.



Sources: Edward Jones; Bloomberg L.P.

- In January 2023, equity sentiment shifted towards high beta and away from momentum and low volatility.

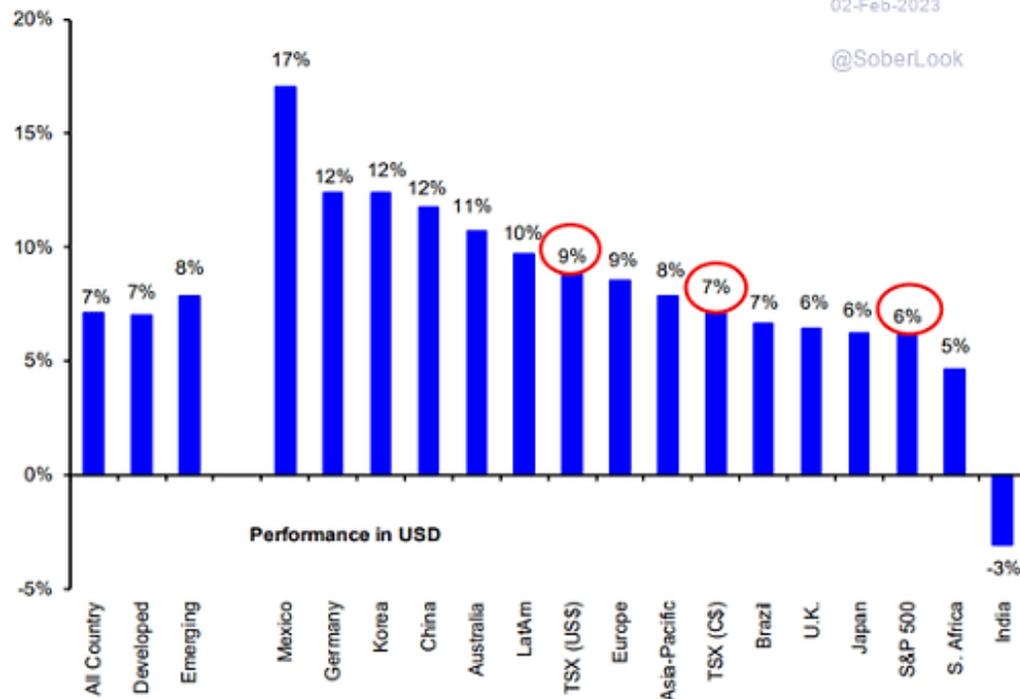
S&P 500 Equity Factor Returns (TR): 30-Dec-22 to 31-Jan-23



Sources: Bloomberg L.P.; The Daily Shot.

- Foreign equities generally experienced positive returns in January with a potential tailwind from the weakening U.S. dollar.

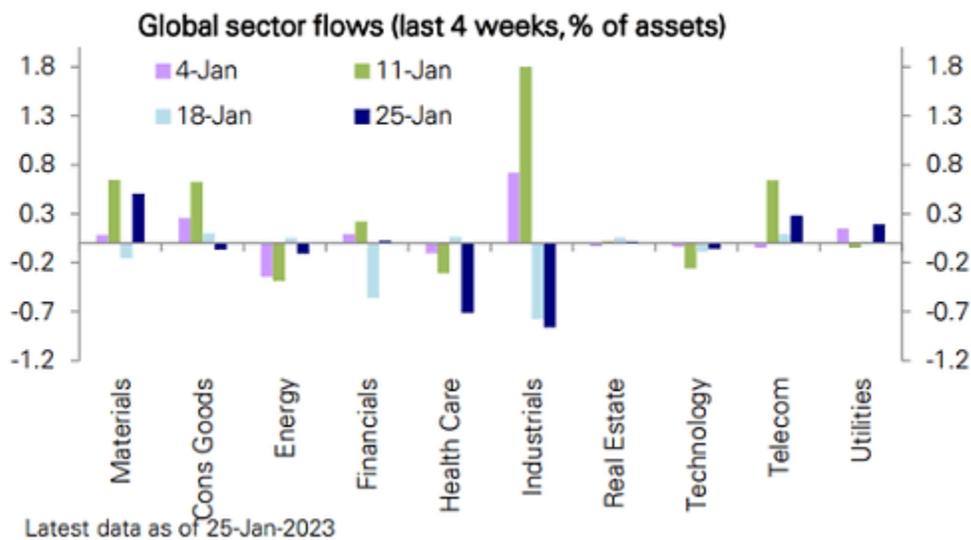
Global Large Cap Equities: MTD Performance (As at January 31, 2023)



Sources: Scotia Capital; The Daily Shot.

- January equity flows are relatively healthy for the materials, telecom, and utilities sectors, while the health care sector appears to be in outflows so far in 2023.

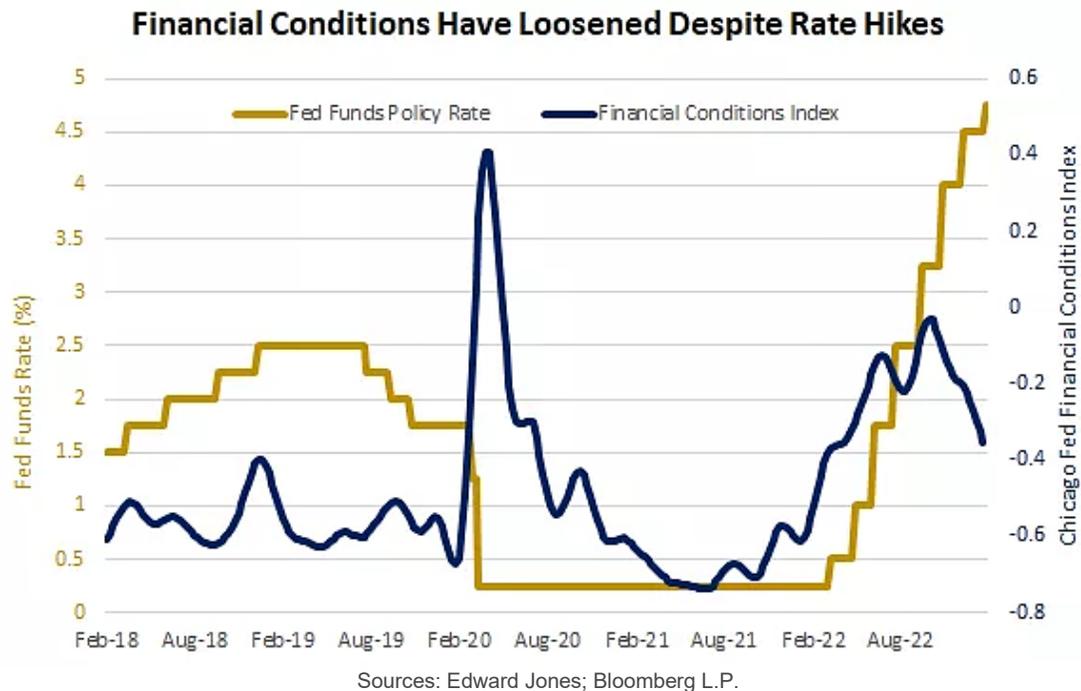
Figure 84: Sector fund flows last 4 weeks



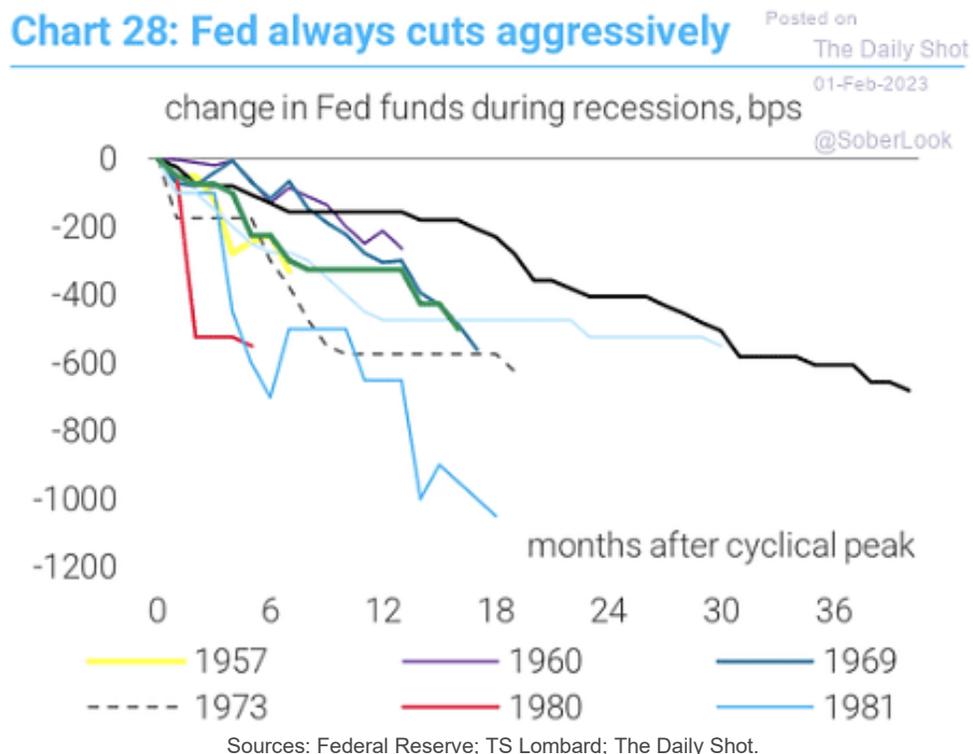
Sources: Deutsche Bank, Haver Analytics; The Daily Shot.

Fixed Income Markets

- The chart below shows that in recent months, financial conditions loosened despite the Fed continuing to raise rates.



- Historically, the Fed cut rates aggressively during past recessions.



U.S. Economic and Political News

- The unemployment rate unexpectedly dropped to -3.4%, hitting the lowest mark since 1969.
- Average hourly earnings came in at +0.3% month-over-month (+4.3% year-over-year), which was in line with consensus expectations.

International Markets and News

- The Chinese stock market (Shanghai Composite) was flat as China's official manufacturing Purchasing Managers' Index (PMI) rose to 50.1 in January from December's 47.0, which suggested a return to growth for the first time since September 2022.
 - The International Monetary Fund (IMF) raised its 2023 gross domestic product (GDP) forecast for China to 5.2%, which is up from its October forecast of 4.4%. This is primarily due to expectations that the Chinese economy will rebound from the removal of pandemic restrictions.
- European markets (STOXX 600 Index) rose +1.2% as the European Central Bank (ECB) raised rates by 0.5% to 2.5% and stated it would raise rates again by 50 bps in the March meeting. However, it "will then evaluate the subsequent path of its monetary policy," which likely boosted sentiment for equities.
 - January inflation for the Eurozone cooled more than expected to an annual rate of 8.5% from 9.2% in the previous month.
- Japanese equities (Nikkei 225 Index) rose +0.5% as equity sentiment improved from global expectations of the U.S. Fed and the ECB likely nearing the end of their rate-tightening cycles, while the Bank of Japan reiterated its commitment to ultra-loose monetary policy.

This Week:

- The volume of corporate earnings reports will remain high this week.
- Economic data:
 - Monday: Limited U.S. data;
 - Tuesday: Trade Balance, Consumer Credit, Redbook Chain Store, American Petroleum Institute (API) Crude Inventories;
 - Wednesday: Mortgage Bankers Association (MBA) Mortgage Purchase Applications, Wholesale Inventories, NY Fed President moderating WSJ CFO Network Summit, U.S. Department of Energy (DOE) Crude Inventories;
 - Thursday: Weekly Jobless Claims, Energy Information Administration (EIA) Natural Gas Inventories;
 - Friday: Michigan Consumer Sentiment (Preliminary), Treasury Budget, Philly Fed President Speech at Central Banking Event.

As always, thank you very much for your interest in our thoughts and support of our services.

Whitney Stewart, CFA®
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Performance is compared to an index, however, the volatility of an index varies greatly. Indices are unmanaged and investments cannot be made directly in an index.

The S&P 500® Index is a readily available, carefully constructed, market-value-weighted benchmark of common stock performance. Currently, the S&P 500 Composite includes 500 of the largest stocks (in terms of stock market value) in the United States and covers approximately 80% of available market capitalization.

The Russell 2000® Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000® Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000® is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

The Dow Jones Industrial Average (DJIA) is an index that tracks 30 large, publicly-owned blue chip companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

The NASDAQ Composite Index is the market capitalization-weighted index of over 2,500 common equities listed on the NASDAQ stock exchange. The types of securities in the index include American depository receipts, common stocks, real estate investment trusts (REITs) and tracking stocks, as well as limited partnership interests. The index includes all Nasdaq-listed stocks that are not derivatives, preferred shares, funds, exchange-traded funds (ETFs) or debenture securities.

The MSCI EAFE Index is an equity index which captures large and mid-cap representation across 21 Developed Markets countries around the world, excluding the U.S. and Canada. With 900 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. Developed Markets countries in the MSCI EAFE Index include: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the U.K.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

The Nikkei 225 is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

The Shanghai Stock Exchange Composite Index is a capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

Technical Terms: **The Purchasing Managers' Index (PMI)** is an index of the prevailing direction of economic trends in the manufacturing and service sectors. It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting. The purpose of the PMI is to provide information about current and future business conditions to company decision makers, analysts, and investors. **Gross domestic product (GDP)** is a standard measure of a country's economic health and an indicator of its standard of living. Also, GDP can be used to compare the productivity levels between different countries. (Technical definitions are sourced from Corporate Finance Institute.)

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