Weekly Economic Update – 1-30-2023

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- Economic data for the week included U.S. GDP coming in for Q4 at a stronger pace than expected, in addition to positive reports for durable goods orders, new home sales, and consumer sentiment.
- Global stocks rose last week, with the U.S. leading the way, upon rising hopes for the economy achieving a soft landing and inflation easing. Bonds were little changed on the week. Commodities were mixed, with both crude oil and natural gas prices falling due to higher supply pressures.

U.S. stocks were mixed last week, with offsetting weaker economic reports and improved producer inflation readings. Sentiment mid-week took a turn downhill due to lower retail sales and industrial production numbers, as well as a large layoff announcement from Microsoft and Google. Thus far, layoff announcements have been concentrated in the tech industry, but markets appear to be awaiting a broader spread. Labor market erosion seems to be one of the key factors the Fed is anticipating in finding a fed funds rate peak. Sector results were oddly mixed, with communications (mostly Alphabet/Google), technology, and energy leading the way; industrials fared worst, along with normally defensive consumer staples and utilities. Real estate also fell back by nearly a percent.

Foreign stocks were mixed to higher last week with optimism over the impact of China's reopening on global markets, tempered with comments from the ECB that rate hikes will continue. Most directly, the central bank warned financial markets about being too dovish. Overall, in the last few months, conditions in Europe have been better than first feared (helped by a warmer winter, with less need for natural gas), which has led to a rally in non-dollar currencies and outperformance regardless by international stocks. This is another reminder that stocks look to the future, rather than the past. Chinese stocks have been a surprise this year, with double-digit returns thus far as the reopening has proceeded faster than many expected, with hopes for far improved economic growth this year. The Lunar New Year holiday, beginning Jan. 22 and lasting two weeks, consists of substantial vacations and travel, which could exacerbate the Covid spread situation, but also stronger consumer spending.

Bonds showed slightly positive results last week as yields ticked a bit lower across the board, other than for the shortest and longest maturities. Investment-grade corporates outperformed, due to their yield spread, while high yield fell back. Foreign bonds, especially in emerging markets, gained sharply, with optimism about the China reopening winning out over recession fears.

Commodities rose in all major segments, led by energy and industrial metals. Crude oil prices gained over 2% to just under $82/barrel, due a lower U.S. rig count last week as well as continued expectations for demand to rise from China's reopening. Natural gas, on the other hand, fell back another -5% as a continued warmer-than-expected winter weighed on expected demand. This has been most noticeable in Europe, enough to cause doubt about the odds about a potential recession. Considering the tensions on the brink of action between Russia and Ukraine a year ago, a crash in natural gas prices was among the least likely of predictions.

Period ending 1/27/2023			**1 Week %**		**YTD %**
DJIA			1.81		2.60
S&P 500			2.48		6.11
NASDAQ			4.32		11.07
Russell 2000			2.37		8.58
MSCI-EAFE			1.40		8.55
MSCI-EM			1.44		9.95
Bloomberg U.S. Aggregate			0.09		2.99
U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2022	4.42	4.41	3.99	3.88	3.97
1/20/2023	4.72	4.14	3.56	3.48	3.66
1/27/2023	4.73	4.19	3.62	3.52	3.64

Sources: LSA Portfolio Analytics, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Deutsche Bank, FactSet, Financial Times, Goldman Sachs, JPMorgan Asset Management, Kiplinger's, Marketfield Asset Management, Minyanville, Morgan Stanley, MSCI, Morningstar, Northern Trust, Oppenheimer Funds, Payden & Rygel, PIMCO, Rafferty Capital Markets, LLC, Schroder's, Standard & Poor's, The Conference Board, Thomson Reuters, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wells Capital Management, Yahoo!, Zacks Investment Research. Index performance is shown as total return, which includes dividends, with the exception of MSCI-EM, which is quoted as price return/excluding dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.