February 8, 2023

David Yarbrough, AAMS®, AIF®

Senior Vice President, Investments

Raymond James

(615) 904-2739 / david.yarbrough@raymondjames.com

100 E Vine St, Suite 310

Murfreesboro, TN 37130

Market Stats & Commentary

Market Vital Signs as of 1/31/2023

Stock Indexes	January	YTD	1 Year
S&P 500	6.28%	6.28%	-8.22%
Dow Jones Industrial Average	2.93%	2.93%	-0.92%
NASDAQ Composite	10.68%	10.68%	-18.65%
Russell Mid Cap Index	8.30%	8.30%	-3.33%
Russell 2000 Small Cap Index	9.75%	9.75%	-3.38%
MSCI EAFE Developed Int'l Index	8.10%	8.10%	-2.83%
MSCI Emerging Markets Index	7.90%	7.90%	-12.12%
Bond Indexes			
BBgBarc US Aggregate Bond Index	3.08%	3.08%	-8.36%
BBgBarc US Corp High Yield Bond Index	3.80%	3.80%	-5.18%
Interest Rates	**1/31/23**	**12/31/22**	**1/31/2022**
Fed Funds Target Range	4.50-4.75%	4.25-4.50%	0.00%
10 Yr U.S. Treasury Rate	3.52%	3.84%	1.77%

Data courtesy of Raymond James

Markets had a good start to the year – definitely a much better start than they had in 2022. The most interesting nugget in the January numbers, to me at least, was the bounce in large cap tech stocks. The NASDAQ was pummeled in 2022 and it was like a switch was flipped when the calendar turned over. Much of that had to do with interest rates coming down over the month, but I think at least part of the bounce is attributable to the disappearance of tax loss selling after year end. Regardless of what drove markets in January, a month of strong returns across the board was nice to see.

Most economic data has been trending in a market friendly direction over the last couple months, with the exception of the double edged sword of a very tight labor market. I refer to the labor market as double edged because while the labor shortage in the U.S. is forcing wages higher and fueling inflation, it also puts a floor under the economy. Going back to the current data, here are a couple of the bright spots…

- The Consumer Price Index has leveled off since June 2022. In June 2022 the index was at 296.311 and in December it was at 296.797 (https://www.bls.gov/regions/mid-atlantic/data/consumerpriceindexhistorical_us_table.htm). If you annualize the last 7 months you get a CPI of .3%, well below the Fed's target of 2%. This is helpful to consumers and gives the Fed breathing room to stop the rate hikes after March.
- The global supply chain pressure index (https://www.newyorkfed.org/research/policy/gscpi#/interactive) is also gradually getting better, though the pace of improvement slowed in December. I do think the pace of normalization picks up sooner rather than later though, as China unexpectedly abandoned its zero COVID policy a few weeks ago.

There are still headwinds out there – the war in Ukraine, increasing tensions with China, and a labor shortage in the U.S. However, many of the issues that plagued 2022 are definitely improving.

Volatility and Trends

The last thirteen months have been difficult for markets. That is obvious to anyone who has not been in a coma for the last year. However, the whipsaw nature of the returns during this time period strikes me as extraordinary. The S&P 500 did not just go down 1.5% per month to end the year down 18% - it was a wild ride of hard selloffs and big rebounds. With the exception of May, every month saw quite a bit of directional momentum one way or the other and the magnitude of the moves picked up steam as the year progressed. There was not one 3 month trend in one direction or the other in the last thirteen months. I find that interesting and I think that contributed to investor fatigue in 2022. Take a look at the table below of the monthly returns of the S&P 500.

Monthly Returns of the S&P 500

	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2022
S&P 500	**-5.17%**	**-2.99%**	**3.71%**	**-8.72%**	**0.18%**	**-8.25%**	**9.22%**	**-4.08%**	**-9.21%**	**8.10%**	**5.59%**	**-5.76%**	**6.28%**

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So far, February is getting off to a moderately positive start, but given the back and forth pattern over the last year I don't plan on unbuckling the seatbelt just yet. As I said last month, I think the odds of this year finishing with positive returns are quite good. However, that doesn't mean that volatility ebbs to a more normal level all of a sudden. Given that January was such a good month, it would not be surprising to see some of that given back in February, but so far so good.

The Fed and Interest Rates

As I write this on February 8, the Fed Funds futures market is pricing in a 95% probability of another quarter percent hike at the Fed meeting on March 22. As for the May 3rd meeting, there is currently a 52% probability of no change in rates and a 33% chance of another quarter percent hike. As of now, the probabilities priced into the Fed Fund futures market are that the Fed is done raising rates after March, but the strong January jobs number has increased the chance of one more hike in May. The next CPI number arrives on February 14th and the PCE (the Fed's preferred inflation gauge) comes out on February 24th, so markets will have more visibility on rates over the course of the next couple weeks.

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Investing involves risk and you may incur a profit or loss regardless of strategy selected. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary.

Index Descriptions

S&P 500: Representing approximately 80% of the investable U.S. equity market, the S&P 500 measures changes in stock market conditions based on the average performance of 500 widely held common stocks. It is a market-weighted index calculated on a total return basis with dividend reinvested.

Dow Jones Industrial Average Total Return: The Dow Jones Industrial Average is a composite of 30 stocks spread among a wide variety of industries, such as financial services, industrials, consumer services, technology, health care, oil & gas, consumer goods, telecommunications, and basic materials. The index represents approximately 23.8% of the U.S. market, and is price weighted (component weightings are affected by changes in the stocks' prices). Maintained by the Averages Committee, components are added and deleted on an as-needed basis.

Russell Midcap: A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 31% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell 2000: Based on a combination of their market cap and current index membership, this index is comprised of approximately 2,000 of the smaller securities from the Russell 3000. Representing approximately 10% of the Russell 3000, the index is created to provide a full and unbiased indicator of the small cap segment.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. As of June 2, 2014, the index consists of 21 developed market country indices: 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 United Kingdom.

MSCI Emerging Market Index: A free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2, 2014, the index consists of the following 23 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey, and the United Arab Emirates.

Bloomberg Barclays U.S. Aggregate (BCAG): A representation of SEC-registered, taxable, and dollar denominated securities. The index covers the U.S. investment grade fixed rate bond market, with index components for asset-backed securities, government and corporate securities, and mortgage pass-through securities. Must be rated investment grade (Baa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch; regardless of call features have at least one year to final maturity, and have an outstanding par value amount of at least $250 million.

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