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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 2/28/2023

Stock Indexes	February	YTD	1 Year
S&P 500	-2.44%	3.69%	-7.69%
Dow Jones Industrial Average	-3.94%	-1.13%	-1.59%
NASDAQ Composite	-1.11%	9.45%	-16.70%
Russell Mid Cap Index	-2.43%	5.68%	4.99%
Russell 2000 Small Cap Index	-1.69%	7.89%	-6.02%
MSCI EAFE Developed Int'l Index	-2.09%	5.84%	-3.14%
MSCI Emerging Markets Index	-6.48%	0.90%	-15.28%
Bond Indexes			
BBgBarc US Aggregate Bond Index	-2.59%	0.41%	-9.72%
BBgBarc US Corp High Yield Bond Index	-1.28%	2.47%	-5.42%
Interest Rates	2/28/23	12/31/22	2/28/2022
Fed Funds Target Range	4.50% - 4.75%	4.25-4.50%	0.00%
10 Yr U.S. Treasury Rate	3.91%	3.84%	1.83%

Data courtesy of Raymond James

Given the strong returns in January and the recent tendency of markets to have big monthly swings, it should be no surprise that February was a decidedly negative month. February's returns were driven, as has been the case for the last 14 months or so, by volatility in interest rates. The 10 yr U.S. Treasury rate finished 2022 at 3.84%, dropped to 3.52% by the end of January and rebounded to 3.91% by the end of February. That's a lot of movement for such a short period of time and it has made for a volatile stock market.

Emerging markets had a particularly difficult month, with fears about the Chinese economy (and a Chinese spy balloon) as well as strength in the U.S. dollar driving losses.

Interest rates hit the bond market equally hard. Both bond indexes were negative, but I find it at least somewhat interesting that the high yield index did much better than the aggregate index in a month where stocks were down. I'm not sure if that is a sign or says anything about the state of the economy or markets, but it does seem counterintuitive.

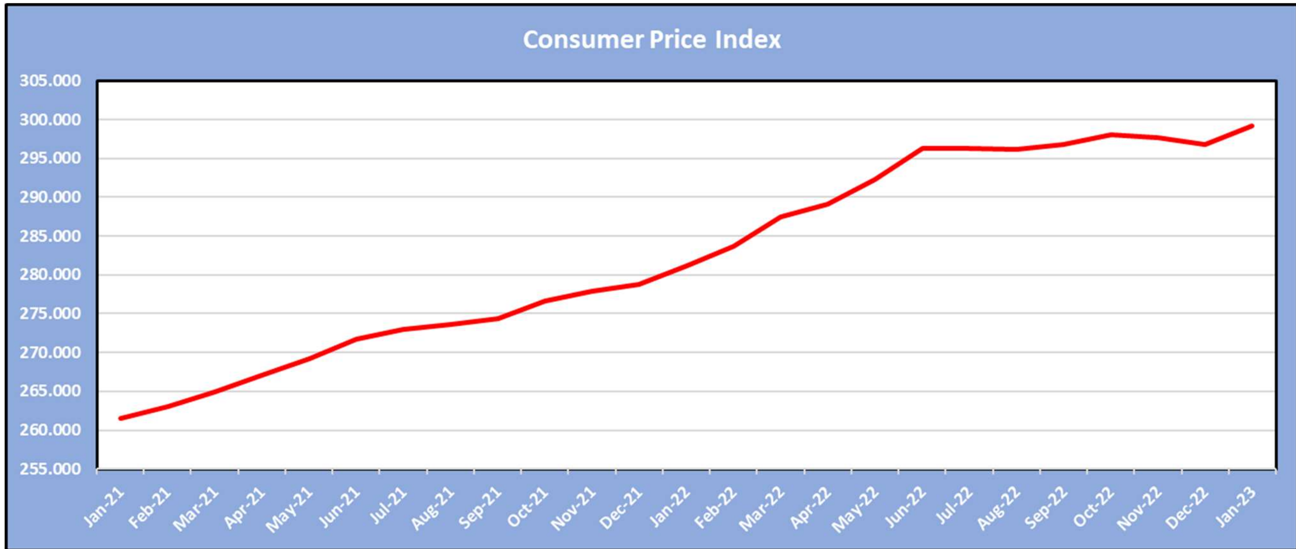
As for the cause of the move higher in rates which caused so much damage, it was the inflation data. The January CPI number came in as expected, though a bit higher than the trend since June 2022. Then the PCE price index number came out a week later and was *hotter* than expected. The combination of the two numbers sent interest rates higher across all maturities which caused selloffs in both stocks and bonds.

The bond market is now pricing in higher probabilities for a .50% hike in March along with another quarter percent hike in May and possibly June. Not what the stock or bond markets wanted to see…

Inflation

Given the bump in the January inflation number, I decided to dig into the data to see where this came from to try to gain some insight to whether the number was a hiccup or the beginning of another leg up. As a refresher, here is a table and chart of CPI data, unadjusted, since the beginning of 2021.

March 9, 2023



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2021	261.582	263.014	264.877	267.054	269.195	271.696	273.003	273.567	274.310	276.589	277.948	278.802
2022	281.148	283.716	287.504	289.109	292.296	296.311	296.276	296.171	296.808	298.012	297.711	296.797
2023	299.170											

Data Courtesy of the Bureau of Labor Statistics

As you can see, the CPI index number was relatively flat from June 2022 to Dec 2022 before getting a noticeable bump in January 2023. So what caused the bump? The housing category, which accounts for about one third of CPI, was up .7% month over month. While that doesn't sound terrible, the rate of increase had been getting slower over the past few months. The January number may be a result of mortgage rates having dropped significantly in January or perhaps it is a seasonal thing. Either way, housing cost was the main driver of the uptick in the headline CPI number.

There were a couple other interesting outliers as well. Electricity and natural gas services both went up a bit more than the normal. The energy services category is 3.4% of CPI, so that contributed a small amount. Another interesting outlier was in the automobile category. Maintenance & repairs and insurance were up 1.3% and 1.5% respectively month over month. Combined, the category makes up about 4% of CPI, so there is another bit of fuel to the fire.

Regarding the sustainability of the uptick in January CPI, that remains to be seen. The rise in interest rates during February has pushed up mortgage rates, which in turn should tamp down home prices and get us back to a decreasing rate of increase. As for utility prices going down, that seems like a low probability event to me.

What to Watch in March (other than NCAA basketball)

These days both stock and bond indexes are driven by what the market thinks the Fed will do on a day to day basis. So economic data releases that pertain to inflation trump all other economic data right now. That being said, the February CPI number comes out March 14th and the Case Schiller Home Price Index comes out on March 28th. Oh, and there happens to be a Fed meeting right between those two data points on March 22nd.

Should be an interesting couple weeks…

David

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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.

Bloomberg Barclays U.S. Corporate High Yield: Covers the universe of fixed rate, non-investment grade debt which includes corporate (Industrial, Utility, and Finance both U.S. and non-U.S. corporations) and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included. Must publicly issue, dollar-denominated and non-convertible, fixed rate (may carry a coupon that steps up or changes according to a predetermined schedule), and be rated high-yield (Ba1 or BB+ or lower) by at least two of the following: Moody's, S&P, and Fitch. Also, must have an outstanding par value of at least $150 million and regardless of call features have at least one year to final maturity.