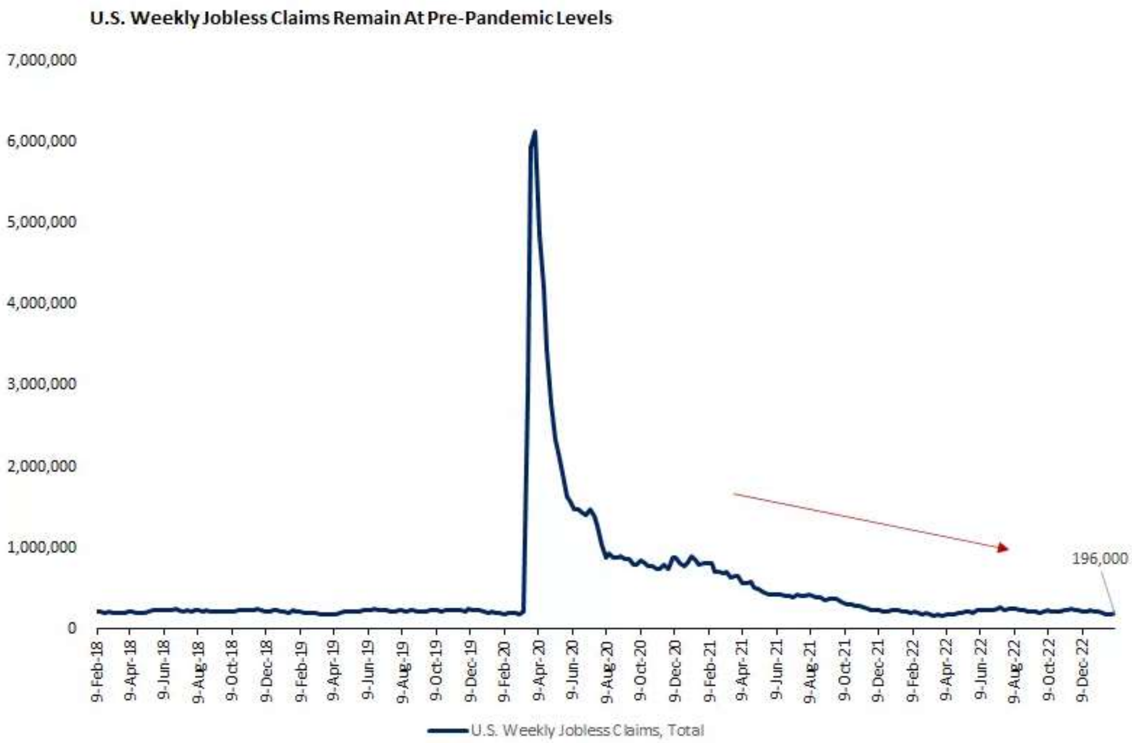
Monday, February 13, 2023

Good morning:

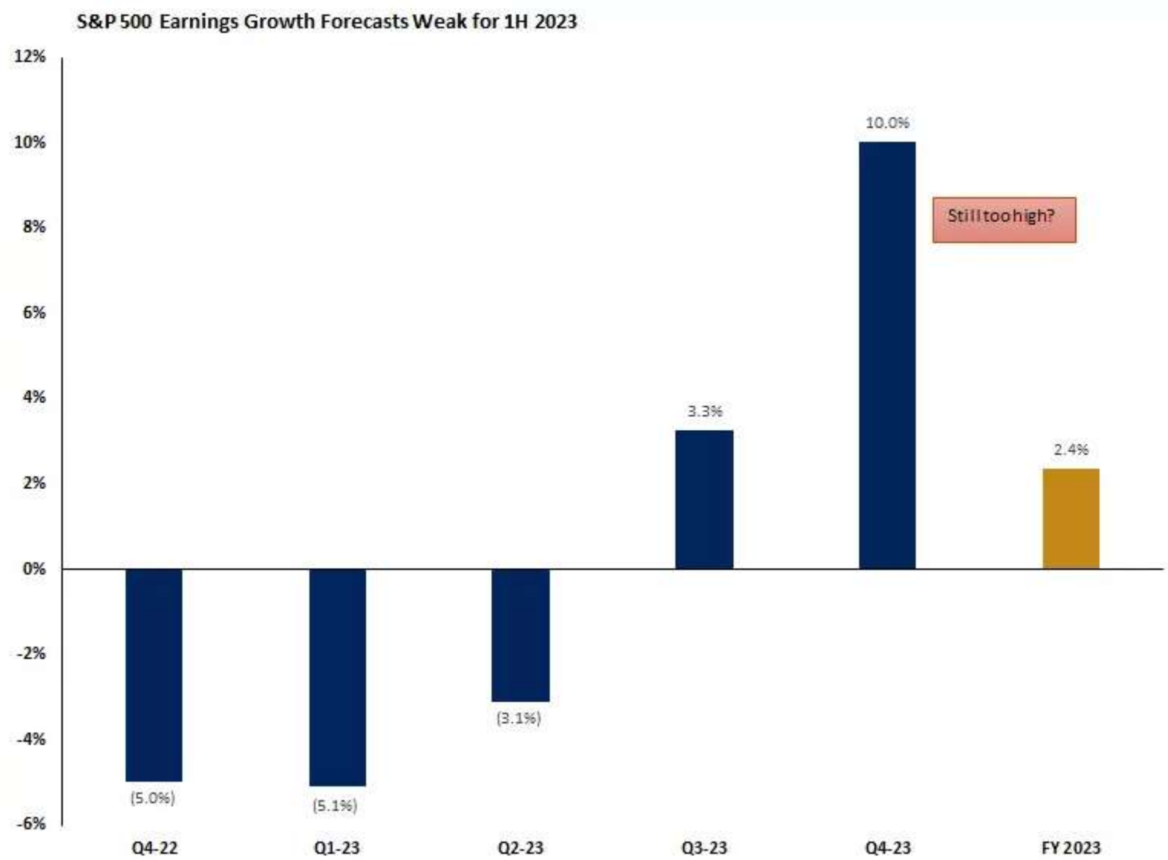
After a strong start to the year for equities, particularly in areas that were especially beaten down last year like technology, small caps, and international names, stocks took a step back as volatility and uncertainty returned last week. The S&P 500 had its worst week of this short year giving back 1.1%, while the NASDAQ lost 2.4%. Having run up far less recently, the Dow only declined 0.2% on the week. It could have been the collective realization that while the Fed may be winding down their tightening cycle due to steadily moderating inflation numbers, it might be a bit premature to start celebrating just yet.

Among the top concerns is whether the aggressive rate hikes already implemented will trigger a major economic downturn, or something less severe and protracted. So far, strong labor markets and consumer spending levels suggest that our economy may be resilient enough to navigate this period with something resembling the proverbial "soft landing." As this chart illustrates, weekly U.S. jobless claims are now back to pre-pandemic levels.



Source: FactSet U.S. Department of Labor

With nearly ¾ of S&P 500 companies having reported their Q4 earnings and outlook, a mixed picture is clearly forming. So far, about 70% of these companies have reported better than expected results, a figure less than the five-year average of 77%. Overall Q4 earnings are expected to fall by 5% year over year, while the 2023 Q1 estimates are expecting a similar decline of -5.1%. Current forecast for Q2 shows a moderating decline in earnings growth of -3.1%, but still maintains a positive full-year projection of 2.4% for 2023. We will be watching to see if the strong earnings growth projections for later this year are maintained or also get trimmed.



Source: FactSet

The fact that markets are a bit apprehensive about charging ahead in the face of so much uncertainty, especially after such a difficult prior year, is not at all surprising or unexpected. It actually may be healthier for the formation of the next bull market to allow a little more time to pass and further clarity on the key drivers of our economy and markets to develop. With CPI data coming tomorrow and retail sales figures on Thursday, we believe the likelihood for continued volatility remains high. However, we are encouraged by a slightly less hawkish tone from Fed Chairman Powell is some of his recent remarks. While a least one or two more 1/4% rate hikes are expected in the coming months, markets may start to react much better if the Fed's 2% inflation target appears achievable.

The first wave of Raymond James 1099s will be released this week. You may download copies from our Client Access website if you like. And finally, congratulations to Kansas City for their exciting come from behind championship win last night! The game reminds us that like the stock market and the economy, things can turn around quickly and have a positive outcome!

Have a great week!

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The NASDAQ Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market.

The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.

The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.

Market return and statistical data obtained from: https://am.jpmorgan.com/blob-gim/1383452890099/83456/weekly_market_recap.pdf?segment=AMERICAS_US_ADV&locale=en_US

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