Monday, February 27, 2023

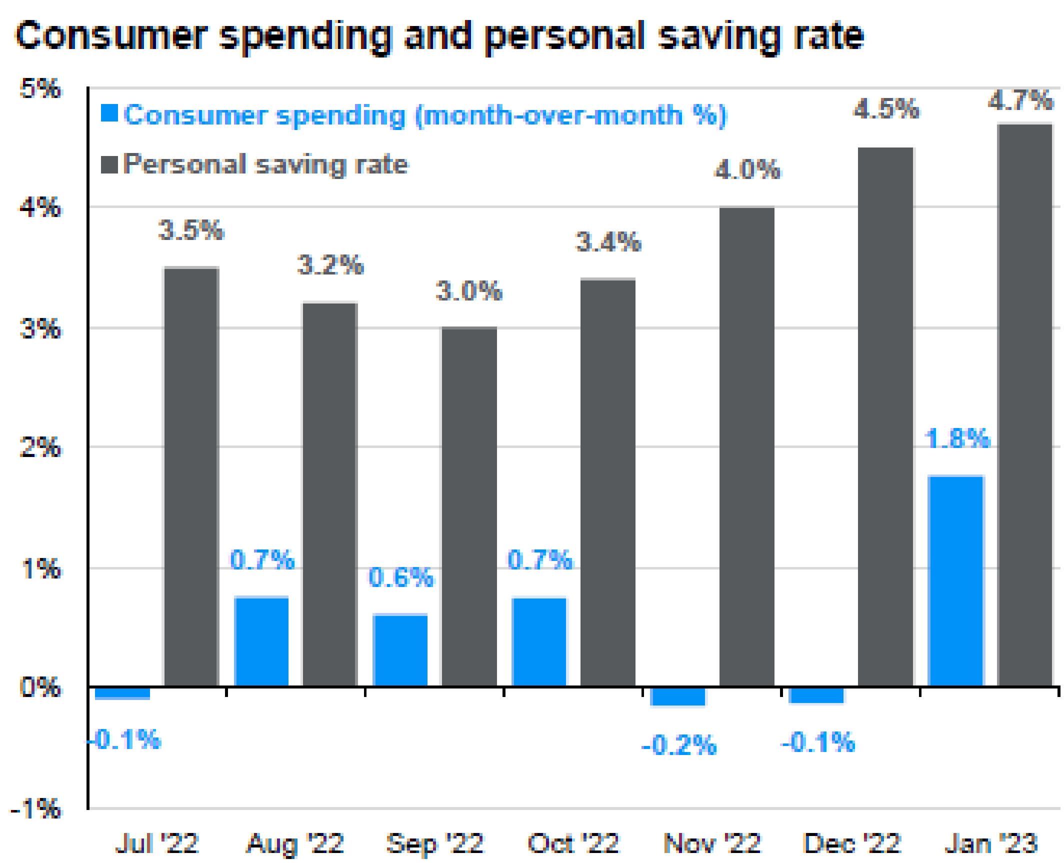
Good afternoon:

Both stocks and bonds sold off last week in response to incoming inflation data suggesting the Fed may need to remain hawkish, keeping rates higher for longer. This resulted in equity declines across nearly every sector during the holiday-shortened trading week. By Friday's close, the S&P 500 posted losses of -2.66%, the Dow -2.97%, and the NASDAQ -3.31%. After such a strong start to the year on hopes that we were nearing the end of the Fed's tightening cycle, the reality of inflation's tendency to be "sticky" was enough to send some short-term traders for the exit.

Major equity averages are all opening this morning to the upside significantly lessening last week's decline. We have repeatedly suggested that these types of volatile moves in both directions are to be expected as the market awaits more concrete evidence of the economy and Fed's next moves. It is also likely that equity averages remain range-bound until the Fed takes a less aggressive posture. We expect a few more 0.25% rate hikes in the coming months, followed by an extended period of wait and see from the Fed.

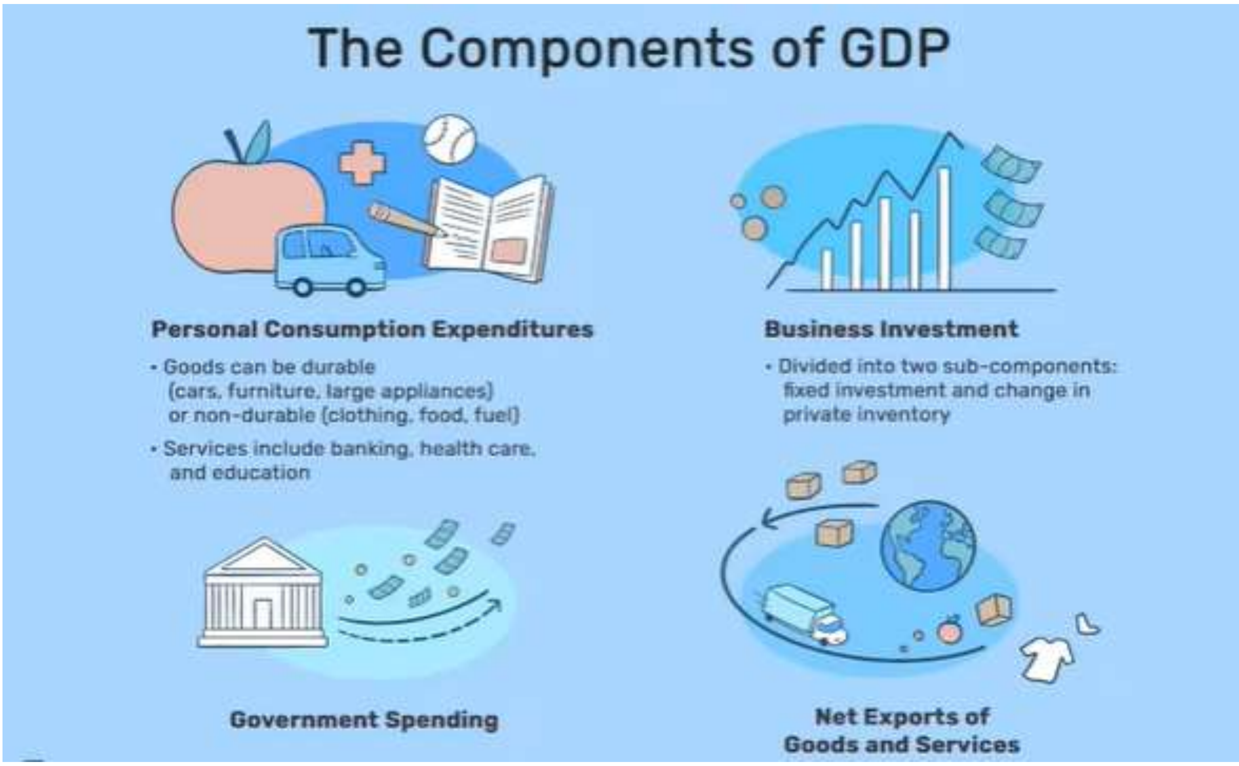
On a more positive note, much of the excess stock valuation froth was removed last year. The multiple at which stocks trade of their earnings came down significantly. Now that earnings themselves are contracting, analysts will be watching to see whether current more reasonable equity valuations fell far enough in anticipation of our emerging economic downturn. Continued pockets of strength, however, suggest that an economic "soft landing" is still possible.

Chief among these positive aspects is the ongoing resiliency of the U.S. consumer. Last Friday's January personal income and outlays report indicated personal income increased 0.6% m/m and consumer spending increased 1.8% m/m, with the personal saving rate rising to 4.7%. However, much of the boost in personal income and personal saving was driven by the 8.7% Social Security cost-of-living adjustment and higher compensation, which could wane as wage growth moderates.



Source: J.P. Morgan Asset Management

Remember, of the four components used to calculate GDP, it is Consumer Spending that is the biggest determinant accounting for nearly 70%.



Source: The Balance

Please let us know if you need any assistance obtaining your 2022 tax documents, most of which are now available online through our Client Access website in the Document section.

Have a great week!

Mark and Jeff

Mark S. Loftus, CFP®
Managing Partner & Founder, LPWP
Registered Principal, RJFS
CA Insurance License #0C83705

Jeffrey C. Preusser, CFP®
Senior Partner, LPWP
Registered Principal, RJFS
CA Insurance License #0E01600

O: 630.566.9200 // T: 844.890.8750 // F: 630.566.9292
1901 Butterfield Road, Suite 100, Downers Grove, IL 60515
www.loftus-preusser.com

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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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