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## Weekly Market Guide

Equities are bouncing to begin the new year, buoyed by the past week's December jobs and CPI reports. Nonfarm payrolls rose by a still strong 223k, but investor focus was on the 0.3% wage growth reading that came in below expectations- a welcomed sign as moderating wage growth should ease inflationary pressures. Additionally, December core CPI rose by 0.3% m/m, which brings the 3-month annualized rate down to just 3.1% (from 7.9% last June). The net takeaways for monetary policy are that the Fed still has more work to do but likely can scale back its pace of rate hikes (as inflation is still elevated). Depending on the data ahead, the Fed may be able to stop hiking rates near 5% (from 4.5% today). But the Committee will also be reluctant to cut rates until inflation is clearly on a sustainable path to its target of ~2%, avoiding a potential repeat of the stop-and-go policy that spurred stagflation in the '70s. **The Fed wants to end high inflation while they can with a hike-and-hold policy this time in our view.**

**A major catalyst for individual stocks will be Q4 earnings season, which kicks off tomorrow morning** with the banks. We expect lackluster results for S&P 500 earnings (with economic leading indicators contracting), but the focus will be on forward guidance, what is baked into that guidance (economic expectations), and the market's reaction to results. Whereas market weakness into Q3 results may have set up stocks for positive reactions last quarter, the average S&P 500 stock is now 16% off its lows and weak earnings may be more of a headwind this reporting season.

Lower valuations were the major influence on equity market returns in 2022, as stocks discounted earnings weakness to come. Now that earnings estimates are declining (which we expect to continue), the question becomes **how much negativity is priced in?** We have yet to see that capitulation ("throw in the towel") moment that can sometimes occur at the end of bear markets- where valuations briefly reach depressed levels. However, multiples have contracted 41% from their peak already and may have already seen their lows. With this in mind, **the overall market trend may become more sideways, and our long-term positive outlook lends itself to using weak periods as opportunity.**

**Technically, we believe the pattern of lower highs and lower lows in 2022 will be broken, as the downtrend becomes more range-bound (potentially ~3700-4300) over the coming months.** The chance of breakouts is increasing (many stocks are shaping up technically), hence the potential to move up to 4300 at some point. On the flip side, even if 3700 is broken on the downside, we do not currently feel that a new low will be established. Our rationale comes from inflation readings that are likely to improve (which can lead to rally periods), but also remain volatile. Upside inflation throughout 2022 likely becomes moderating inflation in 2023. Market trends will improve on this, but it will also take some time before we know if high wage growth and inflation are moving down to the Fed's target (jobs are a lagging result of tightening). Therefore, double digit declines are still a high probability as investor sentiment can shift rapidly.

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	2.5%	-6.3%
S&P 500	3.4%	-15.8%
S&P 500 (Equal-Weight)	4.8%	-8.7%
NASDAQ Composite	4.4%	-27.9%
Russell 2000	4.7%	-16.0%
MSCI All-Cap World	4.1%	-15.7%
MSCI Developed Markets	4.5%	-12.3%
MSCI Emerging Markets	6.3%	-18.2%
NYSE Alerian MLP	4.2%	15.9%
MSCI U.S. REIT	5.3%	-20.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Consumer Discretionary	6.9%	10.1%
Materials	6.8%	2.8%
Real Estate	6.5%	2.8%
Communication Svcs.	6.4%	7.5%
Financials	4.4%	11.8%
Industrials	3.8%	8.6%
Information Technology	3.7%	25.8%
<b>S&amp;P 500</b>	<b>3.4%</b>	-
Utilities	2.3%	3.1%
Energy	0.6%	5.1%
Consumer Staples	0.6%	7.0%
Health Care	-0.5%	15.3%

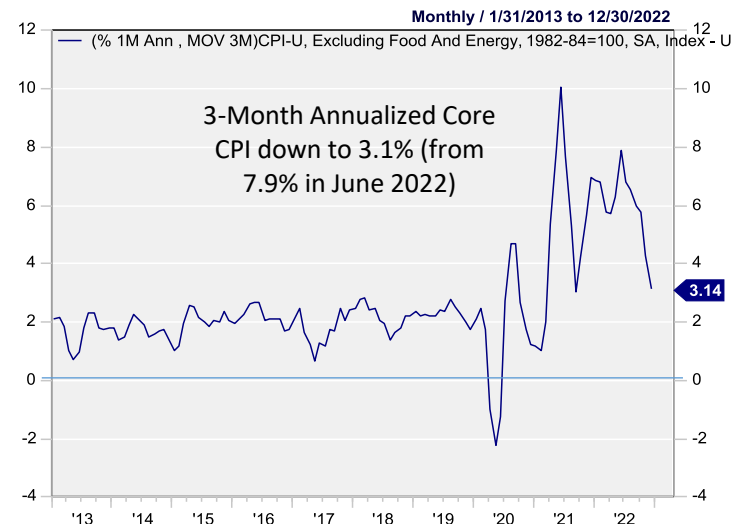
Source: FactSet, Gibbs Capital Management

**MACRO: US**

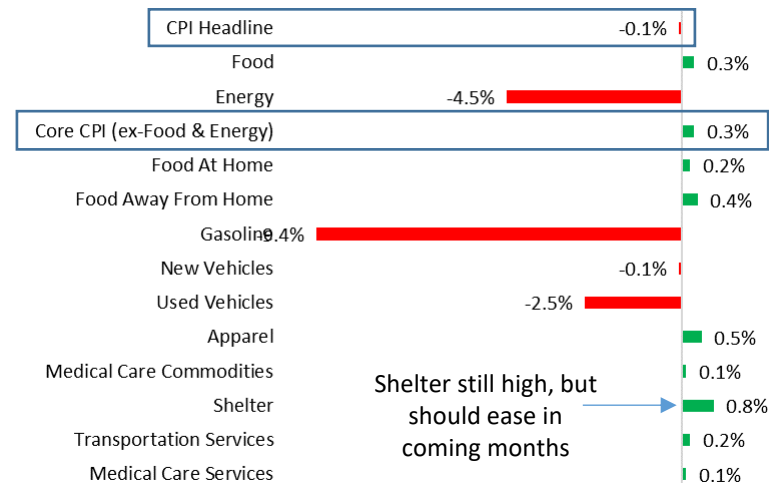
December nonfarm payrolls rose by a still strong 223k, but wage growth was below expectations at 0.3% m/m. This is a welcome sign for investors as moderating wage growth should ease inflationary pressures. However, at a 4.6% y/y level, wage growth is still elevated; and accompanied by a 3.5% unemployment rate, the labor market still remains tight.

Additionally, December headline CPI contracted -0.1% m/m (fueled by a 9.4% drop in gasoline prices). Core CPI (more important for investors) rose just 0.3% m/m, bringing the 3-month annualized rate down to just 3.1% (from 7.9% last June). Shelter was still high at 0.8% m/m, but leading indicators on rental contract agreements suggest that pressure should ease soon.

The net takeaways for monetary policy are that the Fed still has more work to do, but likely can scale back the pace of rate hikes. Depending on the data ahead, the Fed may be able to stop hiking rates near 5% (from 4.5% today). But the Committee will also be reluctant to cut rates until inflation is clearly on a sustainable path to its target of ~2%- avoiding a potential repeat of the stop-and-go policy that spurred stagflation in the '70s. The Fed wants to end high inflation while they can with a hike-and-hold policy this time in our view.



**CPI % M/M Breakdown - December**



Source: FactSet, Gibbs Capital Management

Event	Period	Actual	Consensus	Prior
Nonfarm Payrolls SA	DEC	223.0K	200.0K	256.0K
Unemployment Rate	DEC	3.5%	3.7%	3.6%
Durable Orders ex-Transportation SA M/M (Final)	NOV	0.13%	0.20%	0.20%
Durable Orders SA M/M (Final)	NOV	-2.1%	-1.3%	-2.1%
Factory Orders SA M/M	NOV	-1.8%	-0.50%	0.40%
ISM Services PMI SA	DEC	49.6	55.0	56.5
Consumer Credit SA	NOV	\$28.0B	\$25.0B	\$29.1B
NFIB Small Business Index	DEC	89.8	-	91.9
Wholesale Inventories SA M/M (Final)	NOV	1.0%	0.70%	1.0%
CPI ex-Food & Energy SA M/M	DEC	0.30%	0.30%	0.20%
CPI ex-Food & Energy NSA Y/Y	DEC	5.7%	5.7%	6.0%
Continuing Jobless Claims SA	12/31	1,634K	1,715K	1,697K
CPI SA M/M	DEC	-0.10%	0.0%	0.10%
CPI NSA Y/Y	DEC	6.5%	6.5%	7.1%
Hourly Earnings SA M/M (Final)	DEC	0.30%	0.40%	0.40%
Hourly Earnings Y/Y (Final)	DEC	4.6%	5.0%	4.8%
Initial Claims SA	01/07	205.0K	220.0K	206.0K
Treasury Budget NSA	DEC	-	-\$11.4B	-\$248.5B

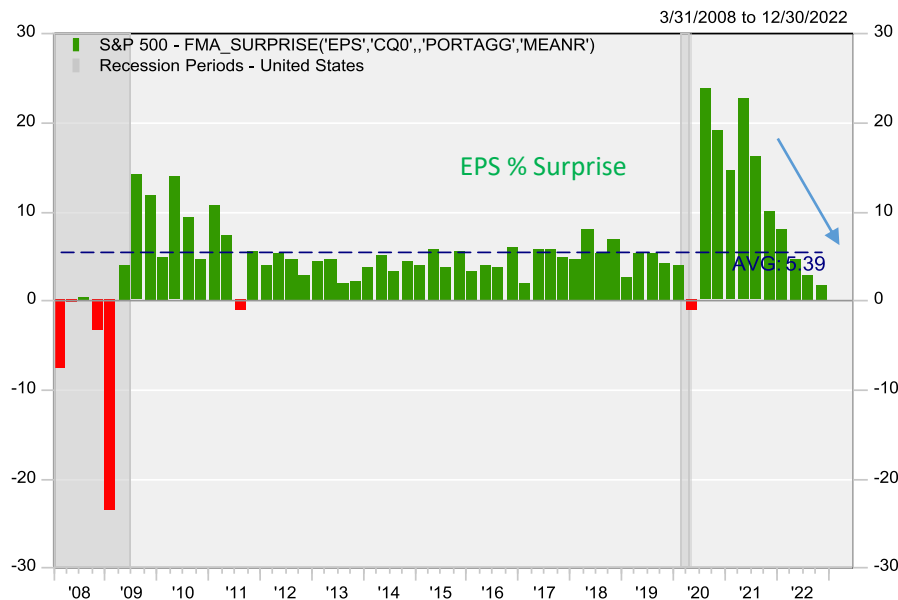
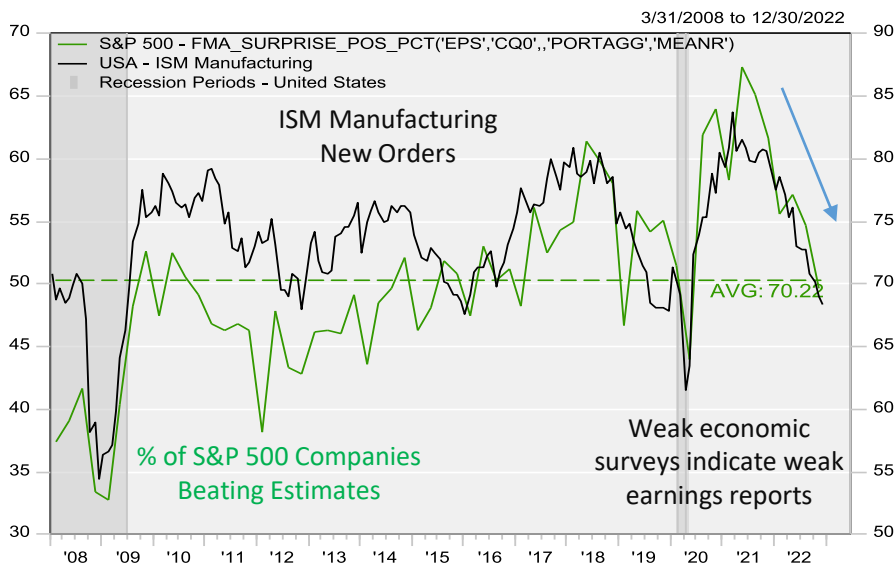
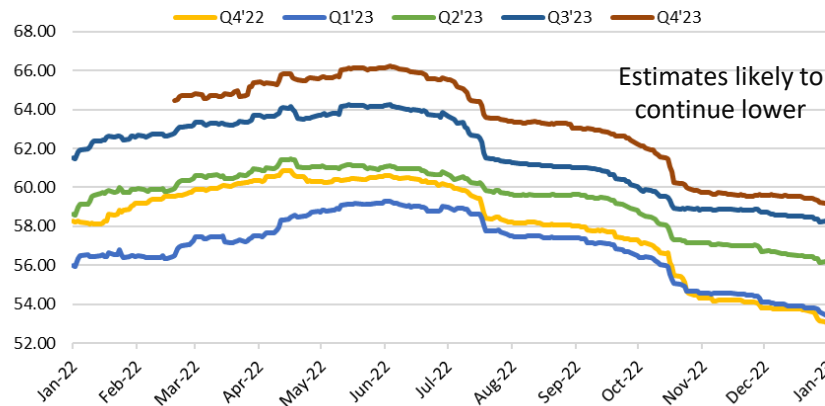
### Q4 EARNINGS SEASON

Q4 earnings season kicks off tomorrow morning with the banks. We expect lackluster results for S&P 500 earnings, but the focus will be on forward guidance, what is baked into that guidance (economic expectations), and the market's reaction to results.

With economic leading indicators contracting, we expect below-average beat rates and surprises. Earnings estimates are also likely to continue their downward trend over the coming months (given our expectations for a mild recession).

The S&P 500 was bouncing off of its lows throughout Q3 earnings season. Weakness into Q3 results may have set up stocks for positive reactions. With the average S&P 500 stock now 16% off its lows, weak earnings may be more of a headwind this Q4 reporting season.

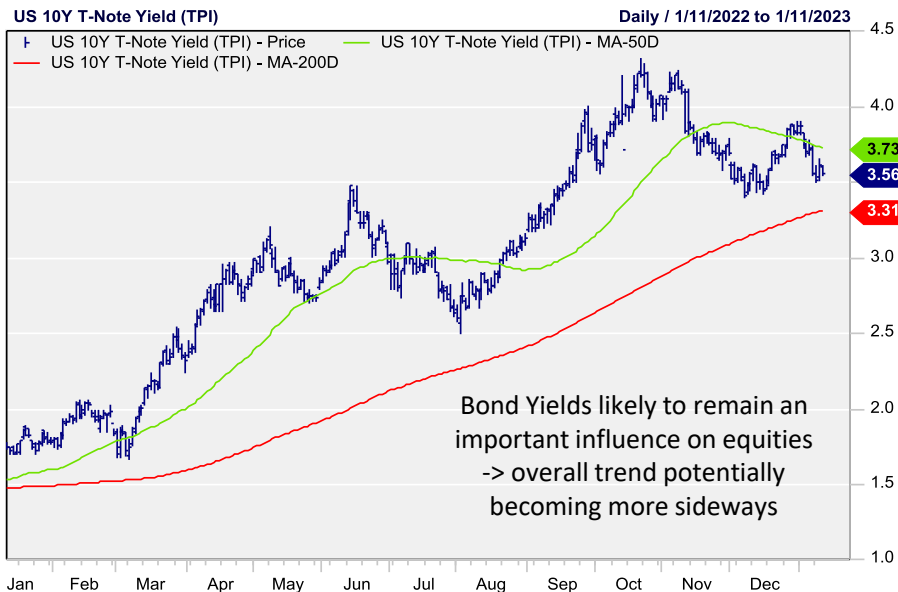
### Quarterly Earnings Estimates



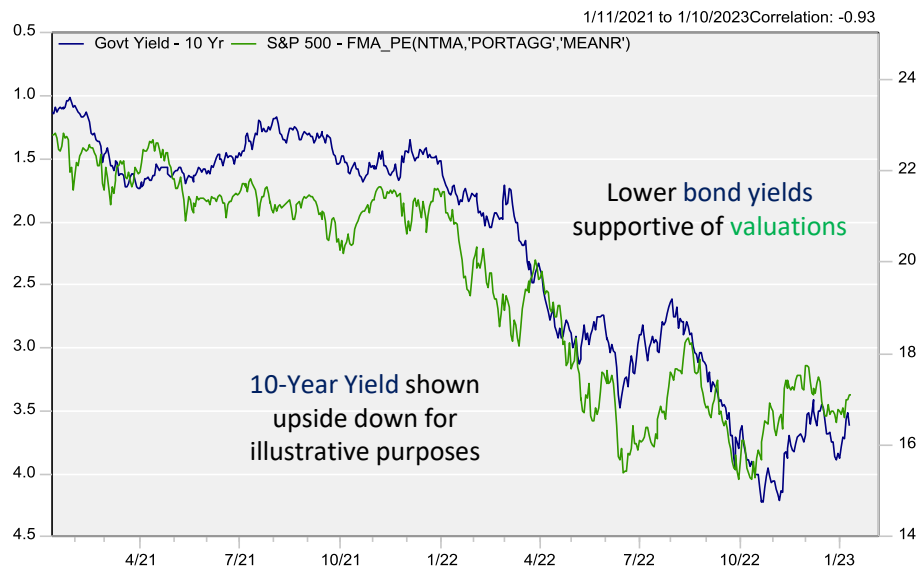
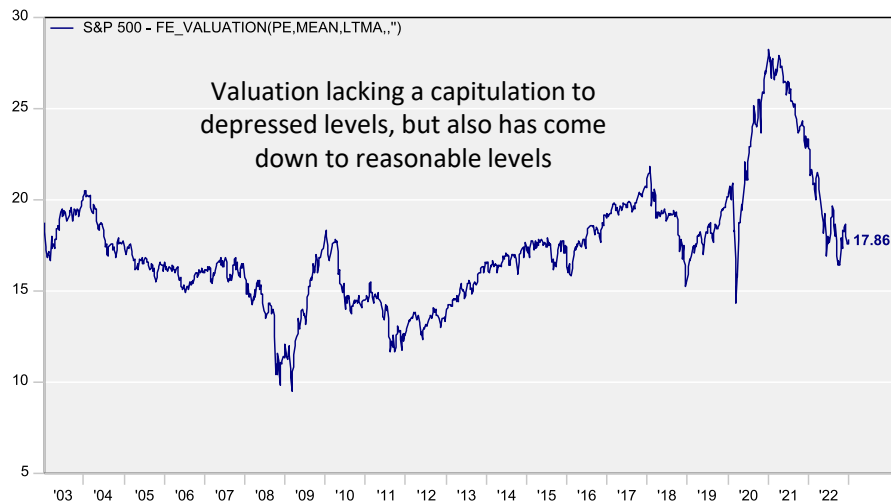
Source: FactSet, Gibbs Capital Management

## BOND YIELDS AND VALUATION

Lower valuations were the major influence on equity market returns in 2022, as stocks discounted earnings weakness to come. Now that earnings estimates are declining, the question is how much negativity is priced in? We have yet to see that capitulation (“throw in the towel”) moment that can sometimes occur at the end of bear markets- where valuations briefly reach depressed levels. However, multiples have contracted 41% from their peak already and bond yields have likely peaked. As you can see, bond yields have been a strong (inverse) correlation with P/E multiples over the past two years. Thus, if the 10-year yield’s trend can become more sideways, this will be a more supportive backdrop for equities. While we are not yet convinced that equities have fully priced in economic contraction, multiples and stocks may have already seen their lows. The overall market trend may become more sideways, and our long-term positive outlook lends itself to using weak periods as opportunity.

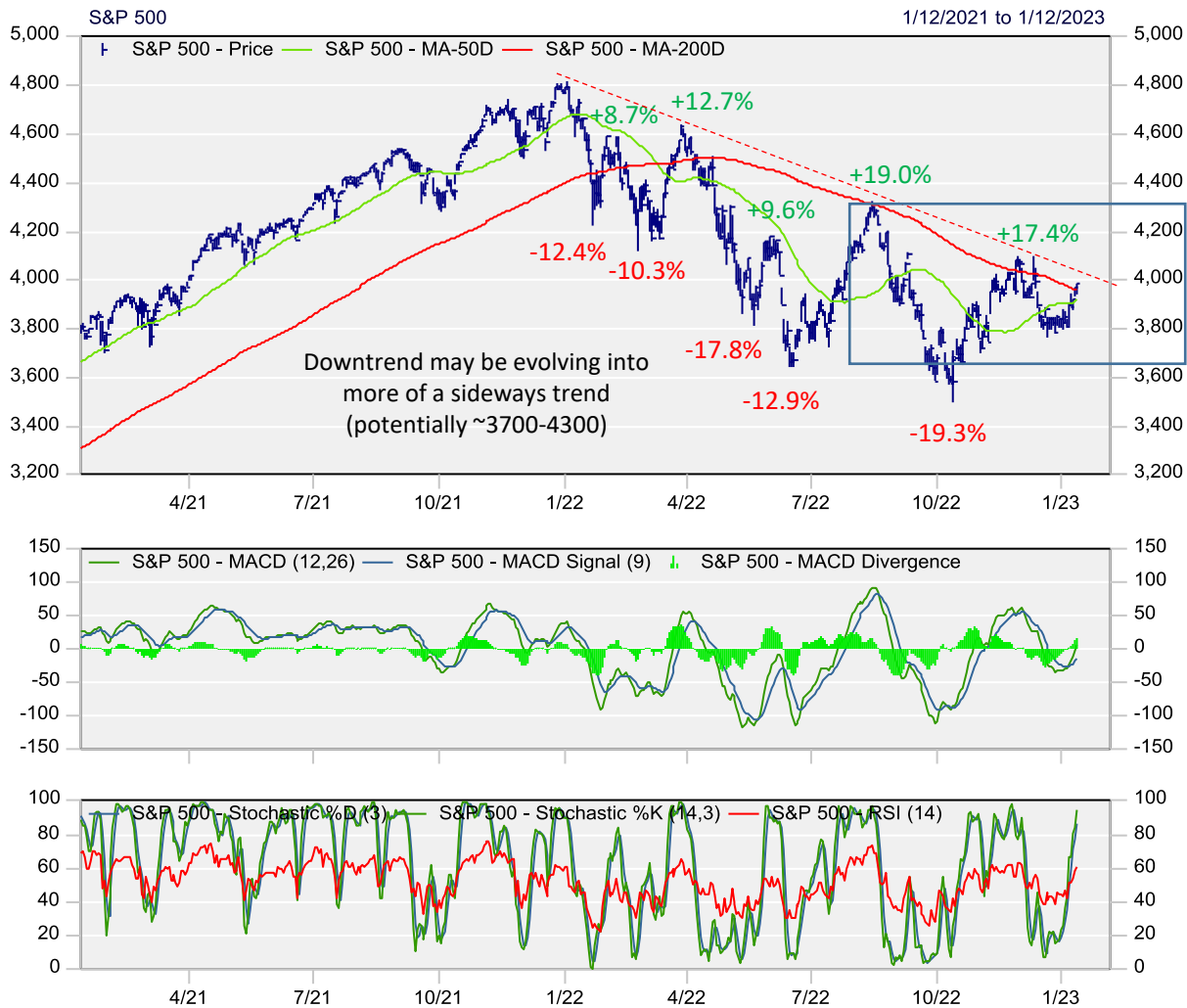


S&P 500 (SP50-USA) : 01/10/2003 to 01/12/2023 (Weekly)



Source: FactSet, Gibbs Capital Management

### TECHNICAL: S&P 500



Source: FactSet, Gibbs Capital Management

We believe the pattern of 2022 will be broken, as the downtrend last year becomes more range-bound (potentially ~3700-4300) over the coming months.

The lower highs and lower lows will give way to a more sideways pattern in our view. The chance of breakouts is increasing, hence the potential to move up to 4300 at some point. Even if 3700 is broken on the downside, we do not currently feel that a new low will be established. Rationale: inflation readings are likely to improve which can lead to rally periods, but also remain volatile. Upside inflation throughout 2022 likely becomes moderating inflation in 2023. Market trends will improve on this, but it will also take some time before we know if high wage growth and inflation are moving down to the Fed's target (jobs are a lagging result of tightening). Therefore, double digit declines are still a high probability.

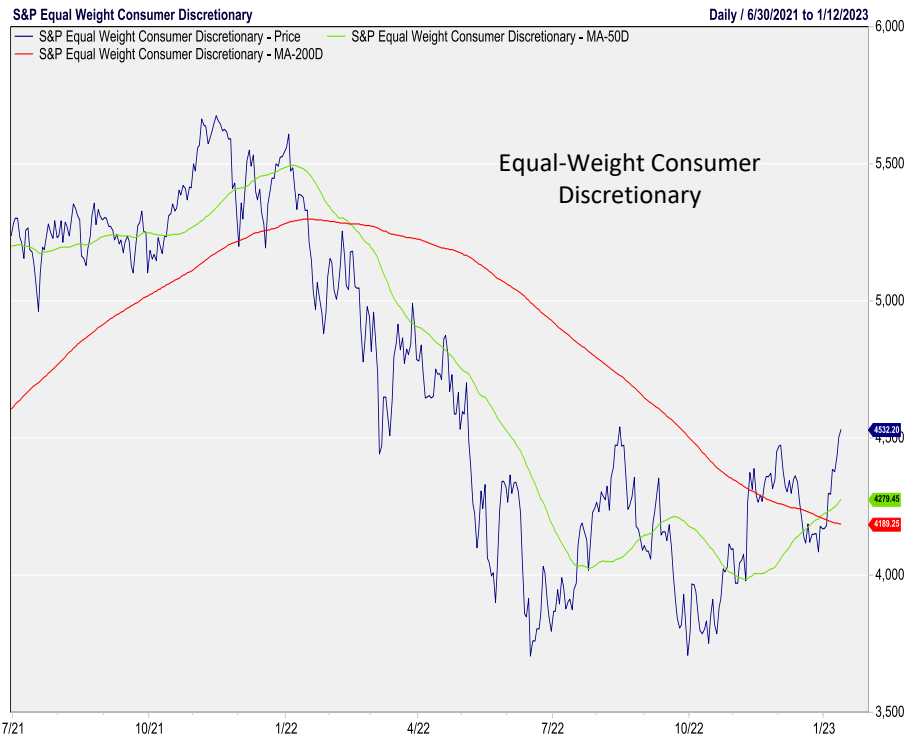
Price momentum steps to watch:

- 1) Closing above 9-week moving average (WMA-3929) this week will be a positive sign.
- 2) Taking out the 50 WMA 4047
- 3) Maintaining the breakouts (i.e., not quickly rolling over like 3-previous occurrences and staying above the recent low (3783))

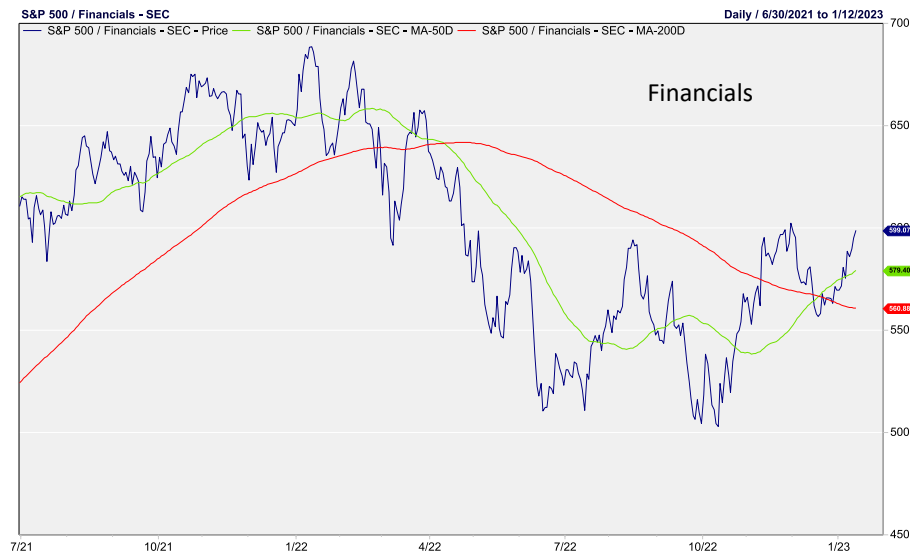
Understand these steps will be greatly influenced by volatile monthly data that can shift investor sentiment rapidly. Currently, the prevailing sentiment is positive after the December jobs and CPI report. Odds of a soft-landing have increased.

### TECHNICAL BACKDROP- MANY CHARTS ARE SHAPING UP

Anecdotally, when we look at individual stock charts, there are a lot breaking out above resistance. We show a few charts below for some of the more risk-on sectors, and as you can see charts are beginning to shape up- downtrends appear to be turning. Technology stands out as yet to improve to the same degree as many other areas. Overall, we still expect volatility and pullbacks to occur broadly (as equities rebuild themselves for sustainable upside), but we recommend using those periods as opportunity given our positive longer-term outlook.



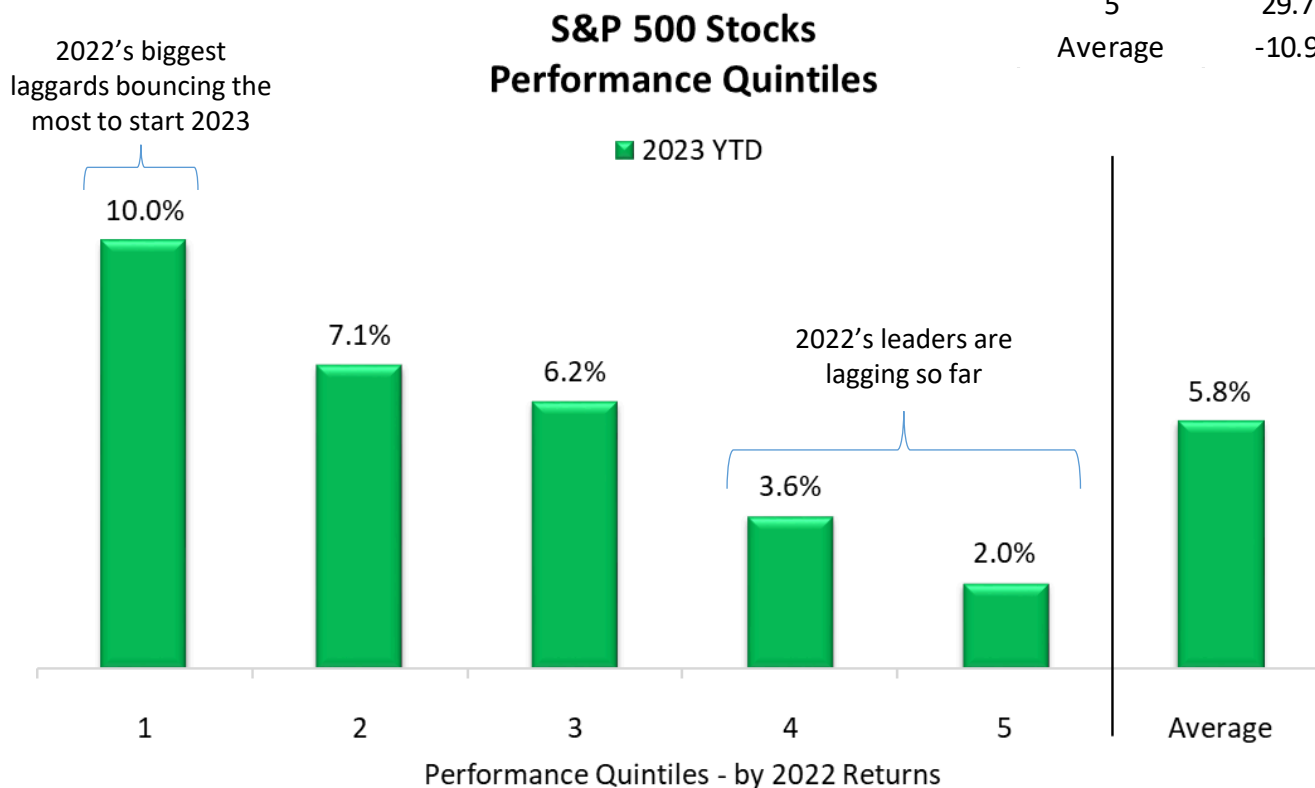
Source: FactSet, Gibbs Capital Management



### 2022'S LAGGARDS LEADING TO START 2023

Some of the sharpest rallies have come from last year's biggest laggards to start 2023. This can often be the case at the beginning of a new year, as tax loss selling ends and investors reposition for the year ahead. While renewed interest can be encouraging, these moves often have very little to do with the actual fundamentals and can also create opportunity for investors wanting to cut back unwanted exposures.

Performance Quintile	Average Return	
	2022	2023 YTD
1	-45.2%	10.0%
2	-25.5%	7.1%
3	-13.4%	6.2%
4	0.3%	3.6%
5	29.7%	2.0%
Average	-10.9%	5.8%



Source: FactSet, Gibbs Capital Management (M23-96493)

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### Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).



The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

**Europe: DAX** (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

**Asia: Nikkei** is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.

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