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**Market Update: January 2023**

Financial markets got off to a strong start to the new year, with January returns for global stocks and bonds reaching 7.17% and 3.28%, respectively. Declining interest rates pushed up bond values and also helped the tech-heavy Nasdaq Composite Index to a gain of nearly 11% for the month. Overall, investors remain optimistic that the Fed will soon pause rate hikes, and eventually even reverse course.

> **The market's big comeback in January is indicative of one thing: Investors don't believe the Federal Reserve is going to keep interest rates high for long.**
>
> **Otani/Timiraos – WSJ 2/2/23**

Some "*market timers*" may have missed out on the sizable investment gains of the past four months. Global stocks actually soared 18%, with foreign equities leading the way with returns of almost 25% over that timeframe. Not to be outdone, global bonds returned about 8% as well, rebounding after stiff losses in the first nine months of 2022.

> **Investors are playing an expensive game of chicken with the Fed.**
>
> **Alex Eule – Barron's 1/31/23**

The Federal Reserve raised the benchmark federal-funds rate by a quarter-percentage on the first day of February. Over the past year, the rate has gone from near zero to a range of 4.50% to 4.75%. While Fed Chair Jerome Powell acknowledged recent economic data has been encouraging, he still made it clear the central bank was not changing its focus on fighting inflation. The Fed's biggest concern is still the labor market, which is considered to be way too tight.

> **Hope for the soft landing is still alive.  Inflation has moderated, that's a good thing.  The Fed has acknowledged inflation is moderating.   That's an even better thing, because that means rates should probably stop going up at such a fast pace and probably pause.**

**Gene Tannuzzo, Columbia Threadneedle – Barron's 2/2/23**

Speaking of the labor market, the February 3 "Jobs Report" turned out to be a blockbuster, with the Labor Department reporting the U.S. added 517,000 jobs in January.  The report blew away the 187,000 Dow Jones estimate, as well as December's gain of 260,000.

> **This is just incredibly, surprisingly strong.  Not only are you hiring more workers but the workers you have overall are working more hours. It doesn't really get stronger than that.**

**Kathy Bostjancic, Nationwide – WSJ 2/3/23**

The International Monetary Fund (IMF) expects the global economy to expand by 2.9% this year … slightly better than the 2.7% rate it projected back in October.  The adjustment reflects easing inflationary pressures, tight labor markets, solid household and business spending, and the reopening of China's economy.

> **The year ahead will still be challenging.  But it could well represent the turning point, with growth bottoming out and inflation declining.  With a global growth rate at 2.9%, we are well away from any sort of global recession marker.**

**Pierre-Olivier Gourinchas, IMF Chief Economist – WSJ 1/30/23**

China's economy is expected to expand by 5.2% this year, up from the 3% growth of 2022.  While China's reopening will increase manufacturing output and eliminate most supply chain disruptions, it could also result in higher demand and prices for commodities.

Overall growth in emerging economies is projected to reach 4% this year. Advanced economies are expected to muddle along at 1.2% … with U.S. growth expected to decelerate from 3.5% last year to 0.7% this year. The U.K. is the only major advanced economy expected to experience negative growth in 2023.

> **I think there are certainly a lot of concerns about what may come with the economy and the potential for a recession in 2023. But where we sit right now, the consumer is still doing pretty well supported by a very strong employment market.**
>
> **Roger Hochschild, Discover Chief Executive – WSJ 1/30/23**

Then again, consumer spending, which accounts for about 70% of the U.S. economy, is facing some strong headwinds. Consider the following signs that household budgets are under mounting pressures:

- Retail purchases have fallen in three of the past four months.
- Spending on services in December was the worst in nearly a year.
- Saving rates declined to 3.4% of monthly income in December, down from 7.5% a year ago.
- Big companies – IBM, Goldman Sachs, and Microsoft - have begun to cut jobs.
- Employers are dropping temporary workers.
- According to Freddie Mac, 57% of consumers were concerned about making housing payments in the fourth quarter … up from 48% in the third quarter.
- Credit card balances increased 15% in the third quarter from a year earlier, according to the Federal Reserve Bank of New York. This was the largest increase in more than two decades.

**Regional lenders and banks with big credit-card businesses continued to profit from borrowers who ran up credit balances at higher interest rates in the fourth quarter. But many tightened their lending standards and set aside more money to cover potential loan losses, signs that they don't expect the good times to last.**

**Gina Heeb – WSJ 1/30/22**

The Vanguard Group has previously voiced its concerns over negative real interest rates (inflation-adjusted rates) driving up stock values. Now with real interest rates in positive territory, they believe the removal of such market excesses will be in the best interests of long-term investors as well as retail savers.

**House-flippers, special-purpose acquisition companies and dabblers in crypto and collectibles will no doubt be saddened by the end of easy money. Governments around the world will have to pay more in the years ahead if they continue to expand their debt levels. But the rest of us should be heartened by the prospect of an era of sound money and a return to positive real rates.**

**Joe Davis, Vanguard's Chief Economist – WSJ 1/30/23**

Inflation has hit middle-class households particularly hard, according to a recent report by the Congressional Budget Office. The Pew Research Center reports that 50% of U.S. households fall into their definition of "middle-class", down from 61% fifty years ago.

In a separate report by Primerica, 72% of middle-income families said their earnings were falling behind the cost of living. In addition, 74% said they were unable to save for their future … up from 66% a year ago.

A LendingClub report estimates that 64% of Americans are currently living paycheck-to-paycheck, up from 61% a year earlier. Also, more than half of all households earning more than $100,000 said their finances are stretched too thin, a jump from 42% a year ago.

> **The effects of inflation are eating into every American's wallet, and as the Fed's efforts to curb inflation drive up the cost of debt, we are seeing near record numbers of Americans living paycheck to paycheck.**
>
> **Anuj Nayar, LendingClub – CNBC 1/31/23**

Overall, the U.S. economy remains a mixed bag of data. Prices are easing, consumer spending is softening, and manufacturing activity is on the decline. Conversely, there are approximately 1.9 job openings for every unemployed worker. The U.S. unemployment rate now stands at 3.4% … the lowest rate since May 1969.

> **Maybe we should start off the new year with some good news: Inflation has fallen dramatically. No that's not a prediction; it's a fact.**
>
> **Alan S. Binder, Princeton University – WSJ 1/5/23**

Yes, inflation is falling harder than you may think. Most people aren't aware because price changes are generally measured over 12-month periods, and inflation in the first half of 2022 was running much faster than it was in the second half of the year.

For example, the Consumer Price Index climbed 6.5% in December from a year earlier, but the advance was only a modest 0.1% for the month.

**Daniel G. Corrigan, CPA/PFS, CFP®**