Market Update—Week of March 20, 2023

Presented by Michael Alexander

Quick Hits

1. **Report releases:** Inflation and retail sales cooled as used auto prices have declined
2. **Financial market data:** Mega-cap stocks fared well as rate expectations dropped
3. **Looking ahead:** All eyes will be on Wednesday's Federal Open Market Committee (FOMC) policy decision

Keep reading for an in-depth look.

Report Releases: March 13–17, 2023

Consumer Price Index, February (Tuesday)

Headline and core consumer inflation largely came in as expected in February, with both measures of consumer inflation continuing to decline on a year-over-year basis.

- **Expected monthly CPI/core CPI growth:** +0.4%/+0.4%
- **Actual monthly CPI/core CPI growth:** +0.4%/+0.5%
- **Prior year-over-year CPI/core CPI growth:** +6.4%/+5.6%
- **Actual year-over-year CPI/core CPI growth:** +6.0%/+5.5%

Producer Price Index, February (Wednesday)

Producer inflation came in well below economist estimates for February. Headline prices fell 0.1 percent and the 4.6 percent year-over-year increase in producer prices was below economist forecasts for a 5.4 percent increase.

Retail Sales, February (Wednesday)

Retail sales fell in February after increasing much more than expected in January. Part of the drop in headline sales can be attributed to falling auto sales as core sales were flat after a 2.8 percent increase in January.

Housing Starts and Building Permits, February (Thursday)

Housing starts and building permits improved more than expected in February; however, both measures of new home construction remain subdued compared to the recent highs we saw in early 2022.

The Takeaway

- Inflation eased on both the consumer and producer this month. Despite the easing, core consumer inflation remains elevated at 5.6 percent, driven by elevated prices in housing.
- The retail sales report continues to reflect a consumer shift from goods to services. Food services and drinking places drove the increase in sales while auto and furniture sales slipped.

Financial Market Data

Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	1.47%	–1.23%	2.41%	–10.74%
Nasdaq Composite	4.44%	1.59%	11.36%	–15.54%
DJIA	–0.11%	–2.25%	–3.35%	–6.34%
MSCI EAFE	–3.13%	–3.02%	2.64%	–5.32%
MSCI Emerging Markets	–0.28%	–1.14%	–0.25%	–12.80%
Russell 2000	–2.57%	–8.89%	–1.70%	–16.03%

Source: Bloomberg, as of March 17, 2023

Equities were mixed and markets with exposure to last week's bank failures were among the hardest hit. The Russell 2000 and MSCI EAFE indices declined more than 2.5 percent as the two contained the banks First Republic and Credit Suisse, which struggled amid capital fleeting from their banks via deposits. First Republic saw 11 banks step in to deposit $30B to sure up deposits while Credit Suisse received $54B from the Swiss central bank. The Nasdaq Composite fared well as expectations for future rate hikes dropped and lowered expectations for increases in those firms' cost of capital.

Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	2.48%	2.90%	–5.61%
U.S. Treasury	3.09%	3.20%	–5.30%
U.S. Mortgages	2.35%	2.93%	–5.47%
Municipal Bond	1.54%	2.10%	–1.81%

Source: Bloomberg, as of March 17, 2023

U.S. Treasury yields fell sharply as investors flocked to fixed income amid the equity volatility. The 2-year, 5-year, 10-year, and 30-year fell 74 basis points (bps) (to 3.84 percent), 48 bps (to 3.97 percent), 30 bps (to 3.4 percent), and 10 bps (to 3.6 percent), respectively. Future rate expectations fell dramatically last week when rate hikes proved to negatively impact Silicon Valley Bank as its portfolios were highly sensitive to changes in interest rates. The FOMC will meet on Wednesday to decide on short-term rate policy.

The Takeaway

- Investors flocked to mega-cap names amid volatility.
- Expectations for continued hikes from the Federal Reserve (Fed) throughout 2023 fell dramatically amid bank failures.

Looking Ahead

This week, the FOMC's rate decision will be front and center.

- Today's reports will contain **existing home sales** for February. Existing home sales are expected to pick up modestly. If estimates hold, this would mark the first month with sales growth since January 2022.
- Tomorrow will see the **FOMC rate decision.** Economists and investors will be closely monitoring the release for hints on the future path of monetary policy.
- Thursday will include weekly **initial jobless claims**, which are being monitored for softening in employment.
- Finally, the preliminary **durable goods orders report** for February will be published on Friday. Headline orders are set to rebound following a transportation-driven slump in January while core order growth is expected to slow.

Disclosures: *Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Nasdaq Composite Index measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies' representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage-Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than $50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent.*

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Holbrook Wealth Advisors is located at 2777 Summer ST #502, Stamford, CT 06905 and can be reached at 203-6588950.
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Authored by the Investment Research team at Commonwealth Financial Network.