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Monthly Market Commentary: February 2023

It's raining data!

The American consumer continues to enjoy considerable winds at their back from a tight labor market. In January, businesses dramatically surprised markets by adding 517,000 jobs. The unemployment rate fell to 3.4%, the lowest since the late 1960s. There have been many headlines of large layoffs, but so far they have not been representative of the overall economy. New jobs sprung up across almost the entire economy as factories, restaurants, and retailers all added jobs. Even amid the turmoil in the housing market there was still a tiny increase in residential construction jobs.

With jobs comes spending. Retail sales surged in January, rising 3.0%[1] compared to the 1.1% decline in December[1]. The jump was the largest since March 2021, helped by car sales jumping 5.9% and strong performances in apparel, electronics, and department stores. There weren't many weak points in the report, with every major category improving in January. Consumer's improving attitude may have played a role, with consumer sentiment increasing for the third straight month, according to the preliminary February report by the University of Michigan[2].

On the more disappointing side, the improving trend in inflation mostly stalled out in January, with annual prices rising 6.4%[4]. While it was a slight improvement from December's 6.5% rise[4], the Fed would like to see faster - not slower - improvement. Monthly prices rose 0.5% in January, up from 0.1% in December, with energy and services prices largely contributed to the monthly rise. Also, the recent trend of goods prices falling also stopped, with core goods rising 0.1% over the month. If the downward trend on goods prices has run its course, further improvement in inflation will need to come from falling services prices, which is a trend that hasn't been seen yet.

The bottom line: We aren't out of the woods yet, and we likely won't be for a while. With worse than expected inflation data and stronger than expected jobs and spending data, equity markets remain cautious that the Fed may continue raising interest rates faster and longer than previously expected. While far from a guarantee, such activity by the Fed could result in a recession later this year or next year. Only time will tell. For the moment, we remain cautiously optimistic that inflation continues to trend downward overall, and the Fed seems to be softening on rates.

Sources:

1. Census Bureau, https://www.census.gov/retail/sales.html
2. University of Michigan's Consumer Sentiment Index, preliminary February release, http://www.sca.isr.umich.edu/
3. Bureau of Labor Statistics, https://www.bls.gov/news.release/empsit.nr0.htm

4. Bureau of Labor Statistics, https://www.bls.gov/news.release/cpi.nr0.htm