Week of January 9th Updates

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Markets Overview

	Week Open	Week Close	% Change	YTD
S&P 500	3,910.82	3,999.09	+2.26%	+4.57%
Nasdaq	10,662.10	11,079.16	+3.91%	+6.66%
Dow	33,664.39	34,302.61	+1.90%	+3.52%
Gold	1,866.10	1,920.35	+2.91%	+5.09%
WTI Crude Oil	74.86	80.07	+6.96%	-0.6%
10 Year Treasury	3.53%	3.49%	-4 bps	-30 bps

Central Banking / Economy

- **Mary Daly (San Francisco Fed President) Says Slower Rate Raises Could Help Fed Account for Monetary Policy Lags**
  - Daly said that lags between rate increases and their effect on the economy could be an argument for a quarter percentage point increase instead of half a percentage point
  - Daly expects inflation to ease to slightly above 3% by the end of 2023 before falling to a little over 2% next year
  - She sees the Fed raising rates to 5% before holding it steady (an increase from the current 4.25 – 4.5% range)
  - Officials have hinted at a 25 basis point hike if inflation data seems to improve
  - However, it's important to note that a 25 basis point hike doesn't necessarily mean the fed is prepared to stop raising rates soon
  - WSJ Pro – Central Banking

- **Strong Jobs Report Doesn't Resolve Fed Debate on Next Rate Rise**
  - Friday's employment report does little to clarify how much the Federal Reserve will raise interest rates at its next policy meeting
  - December's employment report which showed that strong job growth was tightening the labor market is important because many Fed officials have shifted their attention from inflation readings to the labor market
  - The report also noted that the rate hikes did little to slow job growth, with the report showing that employers added 223k jobs and the lowering of the unemployment rate to 3.5% from 3.6%
  - Wage growth seemed to not be as strong as previously thought, with a 0.3% increase in December, bringing the 12-month increase to 4.6%

- Charles Evans, the Chicago Fed President, expects the Fed to hike rates to between 5% and 5.25%
- He also states that it is more likely that the Fed hikes rates 25 basis points to allow the data to evolve as they continue to make decisions
- Economists at Bank of America say that the Fed hasn't made enough progress to ease labor-market imbalances and that a half point rate-rise is more likely next month
- WSJ Pro – Central Banking

- **America's Biggest Banks Are Girding for a Recession but Aren't Feeling One Yet**
  - The four largest commercial banks reported mixed fourth-quarter results on Friday
  - With rising rates, lending was more profitable, and consumers had spent more on credit cards
  - Banks still collectively stowed away $2.8 billion in the final three months of 2022 to cover potential loan losses
    - JPM set aside nearly half of this amount—their profit rose 6% YoY
    - Bank of America's profit rose 2%; Citigroup's declined 21%; Wells Fargo & Co's profit declined 50% after a charge tied to a regulatory settlement
  - All four still beat Wall Street's expectations for per-share earnings
  - The bank results are a reminder of how the Fed's rate-rising campaign affects all corners of markets and the economy
  - The rate increases have already dramatically slowed the rate-sensitive housing market
    - Originations at Wells Fargo plunged to about $15 billion from $48 billion a year ago, the lowest volume since 2006
    - At JPM, consumer mortgage originations plummeted to about $7 billion from $42 billion a year ago, the lowest volume since 2004
  - Investment banking revenue, which soared during the pandemic deal making bonanza, fell more than 50% at Bank of America and nearly 60% at JPMorgan and Citigroup
  - The higher rates helped offset this with JPMorgan's profit on lending increasing 48% to a record $20.2 billion
  - WSJ Pro – Central Banking

Markets

- **Why Gold's Rally May Last**
    - Gold climbed to its highest prices in nearly seven months, feeding expectations that it's on track to reach record highs this year
    - Futures prices for gold posted gains of 7.3% in November and 3.8% in December
    - The strength of the U.S. dollar with higher interest rates had pressured gold prices
        - However, since November, the dollar has weakened and the Fed rate hikes have started to moderate, prompting gold to start making its upward move
    - Gold usually rises during a recession, high inflation, or economic uncertainty
        - IMF Chief Kristalina Georgieva said the IMF expects 1/3rd of the world economy to be in a recession this year
    - Barron's

- **Why Falling Inflation Is a Problem for the Stock Market**
    - High inflation was the story of 2022, but will likely not be the story of 2023
        - Disinflation, and even some deflation, is about to become the biggest risk to stocks given the expectation for falling prices
    - Car prices skyrocketed with the average new-car price reaching a record $49,507 in December
        - Those prices are starting to hit demand and forcing companies like Tesla to reconsider, as they cut prices for some of its vehicles by up to 20% this past week
    - Overall, the price of goods is coming down. Steel, aluminum, copper, oil, and corn are all down 30%, on average, from the highs reached last year
    - There is going to be a pricing power issue, so naturally, companies with stickier margins and better balance sheets are likely to weather this period a lot better than competitors
    - Barron's