OBSERVATIONS

- The Federal Reserve lifted policy rates to a new target range of 4.50-4.75%, the highest since October '07. The Fed's statement noted the need for "ongoing increases in the target range", implying that markets may be underestimating the Fed's willingness to keep policy rates 'higher for longer'.[1]
- The European Central Bank (ECB) lifted its main policy rate by 0.5% to 2.5%, signaling that a similar hike could be expected in the March meeting. Meanwhile the Bank of England (BOE) lifted its main rate by 0.5% to 4.0% and talked down expectations for a pause even as the UK economy is expected to worsen.[1]
- The Employment Cost Index—a measure of wage pressure in the economy—eased modestly in Q4, indicating that wages rose 1% during the quarter, down from 1.2% wage growth in Q3-2022.[1]
- Indian conglomerate Adani has seen its collective companies lose nearly $110 billion in market value, one of the largest losses in the country's history following a January 24th report from short seller Hindenburg Research's allegations of the conglomerate's use of accounting fraud and stock price manipulation.[1]
- China manufacturing PMI rebounded modestly in January rising to 49.2—any number below 50 denotes contracting activity—from December's 49.0 figure. But the easing of Covid restrictions provided a larger boost to the services PMI which rose to 52.9 from December's 48.0 figure.[1]
- A blowout jobs number: Nearly 517k jobs were created in January versus expectations for 188k and the unemployment rate dropped to 3.4%--the lowest in 53 years. Job gains were broad across sectors but led by hospitality and leisure (+128k) and professional services (+82k).[2]
- Half of the S&P 500 has reported as of last Friday, and 70% of reporting firms have reported a positive EPS surprise—below the 5-year (77%) and 10-year (73%) average. Overall, Q4-2022 earnings are set to contract by -5% compared Q4-2021. Analysts are also revising down their forecasts for Q1-2023 earnings growth by a larger margin than average.[3]

EXPECTATIONS

- The International Monetary Fund (IMF) revised upward its 2023 GDP global growth outlook to +2.9% from last October's +2.7% expectation. The IMF noted "surprisingly resilient" demand, mostly from the US and Europe while China's reopening is also expected to bolster growth.[4]
- The S&P/Case-Shiller Housing Price Index decreased to 9.2% YoY growth from October's 10.7% YoY figure. November also marked the fifth consecutive month that prices softened on a month-over-month basis and other measures of housing activity and prices suggest further price declines should be expected in 2023.[1]

ONE MORE THOUGHT: *January's strong start and the January effect narrative*[5]

The first month of the year was strong for the bond market as interest rates fell, while stocks reversed December's losses. The Bloomberg Aggregate bond index gained +3.1% in January, mostly from declines in treasury yields which saw the US 10-Year Treasury yield fall by 37bps in the month. Meanwhile, equity markets were led by growth-oriented indices along with overseas markets, both developed and emerging markets—notably China. Much of what we saw in the month could be categorized as having *January effect* like characteristics. Originally observed in the early 40's, the January effect is supposed to be a market anomaly suggesting stocks, particularly those that were

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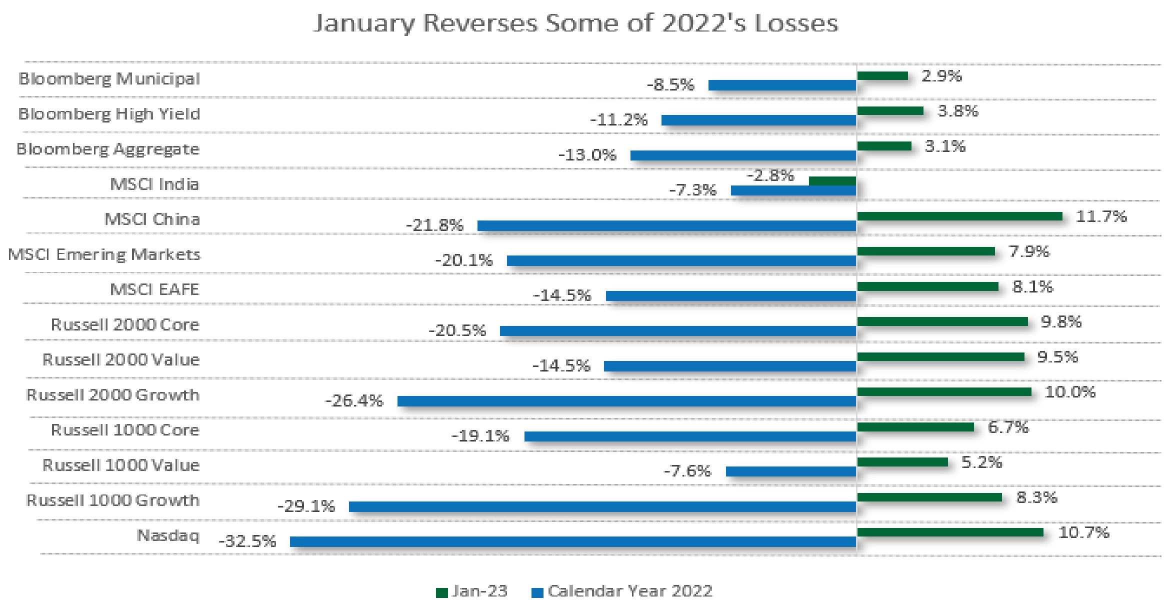
[1] *Bloomberg LP*
[2] *https://www.bls.gov/news.release/empsit.nr0.htm*
[3] *FactSet Earnings Insight, 2/3/2022*
[4] *https://www.reuters.com/markets/imf-lifts-2023-growth-forecast-china-reopening-strength-us-europe-2023-01-31/*
[5] *Bloomberg LP, Clearstead, as of 1/31/2023*

previously weak in the period leading up to January, regularly rise in the first month of the year. The data has been less conclusive in recent years as market efficiency has increased (among a myriad of other considerations) and evidence of a persistent anomaly related to the month of January remains unclear. Since 1928, January has been positive 60% of the time with nearly 85% of those respective calendar years closing positive for the year. *That said, one would be better off focusing on the fact that since 1928 the S&P 500 has delivered positive calendar year returns over 70% of the time, regardless of January's performance*. The context for January's strength is more easily tied to the recent rally in stocks we have observed since seeing the lows (for many markets) in the late September 2022 timeframe with January's performance heavily influenced by a short covering rally in some of the stock market's more speculative companies. For now, markets continue to be generally rangebound, though earnings reporting season continues apace with better-than-expected results out of many beaten down tech companies. Meanwhile, expect to see a deluge of seasonality rhetoric pick up as strategists point to January's strength as a guide for the full year.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, data as of 1/31/2023, Total Returns

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Senior Managing Director of Equity
Clearstead