OBSERVATIONS

- Since hitting their respective all-time highs, Apple (-$916 billion since 1/3/2022) and Amazon (-$991 billion since 1/21/2021) have lost nearly $2 trillion in market capitalization as of last week, eclipsing the total market value of Switzerland.[1]
- In a recent interview, JP Morgan CEO Jamie Dimon suggested a 50% chance the Fed would need to take its policy interest rate to 6%, a full percentage point higher than current market expectations.[1]
- Since hitting their lows in the beginning of Q4-2022, stocks have been led higher in part by international equities with emerging markets (MSCI EM Index) gaining +16.3% and developed international markets (MSCI EAFE) gaining +22.6%, while the S&P 500 has gained +9.1%.[2]
- US inflation generally eased in December in line with expectations. Headline CPI fell to 6.5% Year-over-Year (YoY) down from November's 7.1% YoY reading. Similarly, core-CPI fell to 5.7% YoY in December down from the previous month's 6.1% YoY figure.[1]
- In China, CPI edged up in December from November, but remains benign at 1.8% YoY and PPI (producer prices) also moved higher to -0.7% YoY but remain in negative territory suggesting ample slack in Chinese supply chains.[1]
- Natural gas prices have fallen in Europe. One-month forward prices for Dutch natural gas fell below €66 Mwh ($71 per mega-watt-hour), which is the lowest level since September-2021—due to a warmer-than-expected winter and strong energy conservation from businesses and consumers, which is helping boost the finances of both end-consumers and European governments.[1]
- US initial unemployment claims decreased to 205,000 claims—a level consistent with net job growth—which continues to show the resiliency of the US labor market in the face of Fed rate hikes and a slowing US economy.[1]
- The Michigan Consumer Sentiment Index increased in January to 64.6 from December's 59.7 figure. The index has increased in each of the past seven months since it hit 50 in June-2022—the lowest level ever recorded in the survey's 44-year history—but still remains well below its long run average of 85.3.[1]

EXPECTATIONS

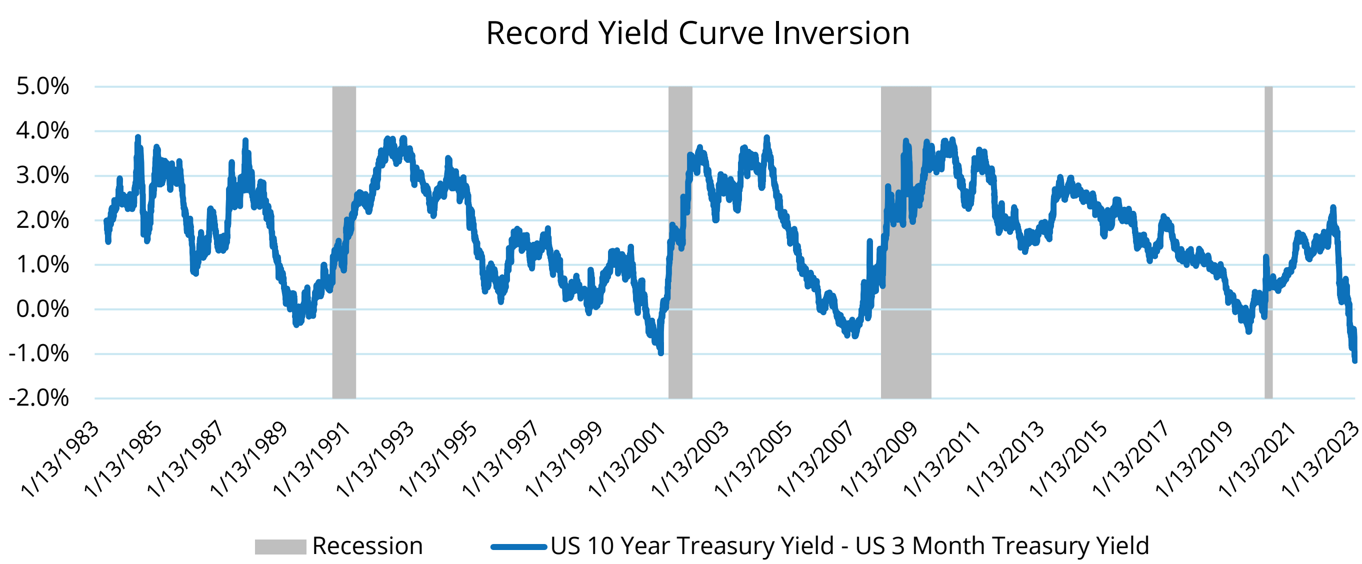
- Job cut announcements are likely to increase this year – we are quite certain of this. That said, job cuts in 2022 rose +13% from 2021 to a total of 363k, with the technology sector being the largest contributor in cuts (accounting for nearly one-third of announcements in 2022). Perhaps of more interest, 2022's job cut announcements rank as the second lowest on record—illustrating the (though backwards looking) strength of the job market as compared to prior periods.[3]
- Q4 2022 earnings season ramps up this week as 26 S&P 500 companies are expected to report. Corporate guidance, particularly from tech sector companies, will likely be a key driver for stock market volatility in coming weeks. For 2023, earnings are now expected to grow +4.8% (vs. +5.3% as of 12/2022) on a year-over-year basis.[4] Large US bank's Q4-earnings calls were mixed thus far, but most banks are increasing reserves in anticipation of rising defaults and a mild US recession.

[1] *Bloomberg LP*
[2] *Bloomberg LP, performance from 09/30/2022 – 01/09/2023*
[3] *https://www.challengergray.com/blog/the-challenger-report-job-cuts-in-2022-up-13-over-2021/, data inception 1983*
[4] *Factset Earnings Insight, January 6, 2023*

ONE MORE THOUGHT: *Steepest yield curve inversion in over 30 years*

The yield curve, here defined as the difference between the 3 Month US Treasury Yield and the 10 Year US Treasury Yield has fallen to its lowest level since 1983. Inversion of the yield curve has been a good proxy for recession, typically inverting 6 to 12 months before the onset of recession. As we know, the Federal Reserve is likely to continue to ratchet short term policy rates higher through at least 5.00% and maintaining higher rates for longer—hawkish undertones from Fed officials in recent days only validate that expectation. Meanwhile, the 10-Year US Treasury yield fell below a key level of 3.50% and traded as low as 3.44% last week before closing on Friday back at 3.49% as markets price in the prospects for lower inflation, a slowing economy, and the prospects for Fed easing. The magnitude of the current inversion (a record low of -1.2% last Thursday) 'feels' extreme given that the likelihood of an additional 25 – 50 bps increase in the Fed Funds rate at the next FOMC meeting (1/31 – 2/1). We would expect, at a minimum, for the 10-year US Treasury yield to increase by a like amount. Depending on Fed Chairman Powell's comments following the meeting, 10-year yields could go higher if the FOMC maintains a hawkish bias towards higher rates for longer to ensure inflationary pressures retreat to achieve the Fed's goal of a 2% inflation level.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP, daily data as of 1/12/2023

Aneet Deshpande, CFA
Chief Strategist
Clearstead

Dan Meges
Managing Director of Equity
Clearstead