



Doerschler & Associates
WEALTH MANAGEMENT

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February 2023 Market Review

The Markets (as of market close February 28, 2023)

February saw stocks slide lower after posting solid gains to begin the year. Each of the benchmark indexes listed here retreated from their January totals, with the Dow falling the furthest, followed by the Global Dow, the S&P 500, the Russell 2000, and the Nasdaq. Investors saw hope in January that inflation may be waning. However, February data showed inflationary pressures reversed course and expanded. The Federal Reserve has consistently maintained that it seeks to achieve maximum employment and hold inflation at the rate of 2.0%. So far in 2023, job growth has been solid, with more than 500,000 new hires, while the Consumer Price Index (+0.5%) and the Personal Consumption Expenditures Price Index (+0.6%) revealed increasing inflationary pressures over the previous month. Inflation has risen 5.4% since January 2022, according to the latest PCE price index. With evidence that the economy can withstand further tightening, the Federal Reserve is likely to continue to drive interest rates higher and for a longer period of time. This, coupled with lagging corporate earnings and the Russia/Ukraine war, which is entering its second year, has caused some investors to move from risk.

Several market sectors posted solid gains in February, while others lagged. Consumer discretionary and information technology increased by about 16.9% and 7.2%, respectively. On the other hand, health care (-4.5%), utilities (-6.3%), and energy (-3.7%) lost ground.

Manufacturing activity changed little in January from the previous month. Durable goods orders declined in January after climbing in December. The purchasing managers' index declined in January as weak customer demand resulted in subdued sales. Meanwhile, input costs and output charges rose at increased rates as price pressures strengthened again.

Corporate earnings in the fourth quarter were generally subpar. Roughly half of the S&P 500 companies have reported above-estimated earnings thus far in the fourth quarter. That is below both the five-year and 10-year averages. It is possible that fourth-quarter earnings for S&P 500 companies could decline, which would mark the first time the index has reported a year-over-year decrease in earnings since the third quarter of 2020.

Bond prices fell in February, driving yields higher. Ten-year Treasury yields rose 39 basis points from January. During the last day of February, the yield hit 3.98%, reaching its highest level since November 2022. The 2-year Treasury yield ended the month at 4.82%. The dollar advanced against a basket of world currencies. Gold prices fell nearly \$110.00 per ounce in February.

Crude oil prices declined in February for the fourth straight month. Oil prices have fallen due to an unusually warm winter in the United States and Europe. In addition, rising inflation and interest rates have pushed against oil prices, while driving the dollar higher. The retail price of regular gasoline was \$3.379 per gallon on February 20, \$0.110 less than January's price and \$0.151 lower than a year ago.





Key Dates/Data Releases

- 3/1: S&P Manufacturing PMI
- 3/3: S&P Services PMI
- 3/8: International trade in goods and services, JOLTS
- 3/10: Employment situation, Treasury budget statement
- 3/12: Consumer Price Index
- 3/13: Producer Price Index, retail sales
- 3/16: Import and export prices, housing starts
- 3/17: Industrial production
- 3/21: Existing home sales
- 3/22: FOMC meeting statement
- 3/23: New home sales
- 3/24: Durable goods orders
- 3/28: International trade in goods
- 3/30: GDP
- 3/31: Personal income and outlays

Stock Market Indexes


| Market/Index | 2022 Close | Prior Month | As of February 28 | Monthly Change | YTD Change |
|------------------------|-------------|-------------|-------------------|----------------|------------|
| DJIA | 33,147.25 | 34,086.04 | 32,656.70 | -4.19% | -1.48% |
| Nasdaq | 10,466.48 | 11,584.55 | 11,455.54 | -1.11% | 9.45% |
| S&P 500 | 3,839.50 | 4,076.60 | 3,970.15 | -2.61% | 3.40% |
| Russell 2000 | 1,761.25 | 1,931.94 | 1,896.99 | -1.81% | 7.71% |
| Global Dow | 3,702.71 | 3,990.37 | 3,881.41 | -2.73% | 4.83% |
| Fed. Funds target rate | 4.25%-4.50% | 4.25%-4.50% | 4.50%-4.75% | 25 bps | 25 bps |
| 10-year Treasuries | 3.87% | 3.52% | 3.91% | 39 bps | 4 bps |
| US Dollar-DXY | 103.48 | 102.08 | 104.95 | 2.81% | 1.42% |
| Crude Oil-CL=F | \$80.41 | \$79.08 | \$76.86 | -2.81% | -4.41% |
| Gold-GC=F | \$1,829.70 | \$1,944.00 | \$1,834.20 | -5.65% | 0.25% |

Chart reflects price changes, not total return. Because it does not include dividends or splits, it should not be used to benchmark the performance of specific investments.

Latest Economic Reports

- **Employment:** Job growth remained strong in January with the addition of 517,000 new jobs following a net upward revision of 37,000 to 260,000 in December. Despite federal interest-rate hikes aimed at slowing the economy and inflation, there is little evidence that the supply of labor is peaking. In January, notable job gains occurred in government, leisure and hospitality, professional and business services, and health care. The unemployment rate edged down 0.1 percentage point to 3.4%. The number of unemployed persons was relatively unchanged at 5.7 million in January. In January, both the employment-population ratio, at 60.2%, and the labor force participation rate, at 62.4% were unchanged from the previous month. Both measures have shown little net change since early 2022. In January, average hourly earnings increased by \$0.10 to \$33.03. Over the past 12 months ended in January, average hourly earnings rose by 4.4%. The average workweek increased by 0.3 hour to 34.7 hours in January, down from 34.4 hours in December.
- There were 192,000 initial claims for unemployment insurance for the week ended February 18, 2023. The total number of workers receiving unemployment insurance was 1,654,000. By comparison, over the same period last year, there were 198,000 initial claims for unemployment insurance, and the total number of claims paid was 1,633,000.
- **FOMC/interest rates:** The Federal Open Market Committee met on the last two days of January, at which time the Committee increased the Federal Funds target rate range by 25 basis points to 4.25%-4.50%. The statement from the FOMC indicated that, while inflation has eased somewhat, it remained elevated. The Committee also noted that it would consider both the extent and the pace of rate increases in the future.
- **GDP/budget:** The economy, as measured by gross domestic product, accelerated at an annual rate of 2.7% in the fourth quarter of 2022, according to the second estimate. GDP increased 3.2% in the third quarter after falling in the first and second quarters, 1.6% and 0.6%, respectively. Consumer spending, as measured by the Personal Consumption Expenditures Price index, rose 1.4% in the fourth quarter, compared to an increase of 2.3% in the third quarter. Spending on services rose 2.4% in the fourth quarter, compared with a 3.7% increase in the third quarter. Consumer spending on goods actually decreased 0.5% in the fourth quarter after declining 0.4% in the third quarter. Fixed investment fell 4.6% in the fourth quarter (-3.5% in the third quarter), pulled lower by a 25.9% drop in residential fixed investment. Nonresidential (business) fixed investment rose 3.3% in the fourth quarter. Exports fell 1.6% in the fourth quarter, compared with a 14.6% increase in the previous quarter. Imports, which are a negative in the calculation of GDP, fell 4.2% in the fourth quarter, following a 7.3% decline in the third quarter. Consumer prices increased 3.7% in the fourth quarter (4.3% in the third quarter). Excluding food and energy, consumer prices advanced 4.3% in the fourth quarter (4.7% in the third quarter). In 2022, GDP increased 2.1%, compared with an increase of 5.9% in 2021. The PCE price index increased 6.3%, compared with an increase of 4.0% in 2021. Excluding food and energy prices, the PCE price index increased 5.0%, compared with an increase of 3.5% in 2021.
- January saw the federal budget deficit come in at \$38.8 billion, \$46.2 billion less than the December






deficit but \$157.5 billion above the January 2022 deficit. The deficit for the first four months of fiscal year 2023, at \$460.2 billion, is \$192.1 billion more than the first four months of the previous fiscal year. In January, government receipts totaled \$447.3 billion and \$1,472.8 trillion for the current fiscal year. Government outlays were \$486.1 billion in January and \$1,933.0 trillion through the first four months of fiscal year 2023. By comparison, receipts in January 2022 were \$465.1 billion and \$1,516.9 trillion through the first four months of the previous fiscal year. Expenditures were \$346.4 billion in January 2022 and \$1,775.9 trillion for the year.

- **Inflation/consumer spending:** Inflationary pressures reversed course, showing a notable increase in January. According to the latest Personal Income and Outlays report, the Personal Consumption Expenditures Price Index increased 0.6% in January and 5.4% since January 2022. Prices, excluding food and energy, jumped 2.0% following increases of 0.2% in November and December. Prices for both goods and services increased 0.6% in January, with prices for food rising 0.4% and energy up 2.0%. Since January 2022, consumer prices for food increased 11.1% and 9.6% for energy. Personal income rose 0.6%, while disposable personal income increased 2.0% in January. Consumer spending advanced 1.8% in January after declining 0.1% the previous month.
- The Consumer Price Index rose 0.5% in January after increasing 0.1% (revised) in December. Over the 12 months ended in January, the CPI advanced 6.4%, down minimally from 6.5% for the year ended in December. Excluding food and energy prices, the CPI rose 0.4% in January and 5.6% over the last 12 months. Prices for shelter, up 0.7%, were by far the largest contributor to the January CPI increase, accounting for nearly half of the overall advance. In January, food prices rose 0.5%, while energy prices increased 2.0% after falling 3.1% in December. For the 12 months ended in January, energy prices increased 8.7%, food prices rose 6.4%, and prices for shelter advanced 7.9%.
- Prices that producers receive for goods and services rose 0.7% in January after declining 0.2% in December. Producer prices increased 6.0% for the 12 months ended in January after rising 6.5% in 2022. In January, the PPI index saw prices for both goods (1.2%) and services (0.4%) increase. The January advance in producer prices for goods was the largest monthly gain since June 2022. Producer prices less foods, energy, and trade services rose 0.6% in January after increasing 0.2% in the previous month. Prices less foods, energy, and trade services advanced 4.5% for the year ended in January, following a 4.7% rise in 2022.
- **Housing:** Sales of existing homes decreased for the twelfth consecutive month after declining 0.7% in January. Existing-home sales dropped 36.9% from January 2022. Limited inventory and rising mortgage rates contributed to the decrease in existing-home sales. The median existing-home price was \$359,000 in January, lower than the December price of \$366,500 but higher than the January 2022 price of \$354,300. Unsold inventory of existing homes represents a 2.9-month supply at the current sales pace, unchanged from December. Sales of existing single-family homes dropped 0.8% in January and 36.1% from January 2022. The median existing single-family home price was \$363,100 in January, down from \$372,000 in December but higher than the January 2022 price of \$360,700.
- New single-family home sales advanced in January, climbing 7.2% and marking the third consecutive monthly increase. However, sales are down 19.4% from January 2022. The median sales price of new single-family houses sold in January was \$427,500 (\$465,600 in December). The January average sales price was \$474,400 (\$544,200 in December). The inventory of new single-family homes for sale in January represented a supply of 7.9 months at the current sales pace, down marginally from the December estimate of 8.7 months.
- **Manufacturing:** Industrial production was unchanged in January, following a 0.6% decrease in December. Industrial production has not increased since July 2022. Manufacturing increased 1.0% in January (-1.3% in December) and mining increased 2.0%. Utilities, on the other hand, fell 9.9% as unseasonably warm weather in January depressed the demand for heating. Over the 12 months ended in January, total industrial production was 0.8% above its year-earlier reading.
- January saw new orders for durable goods decrease 4.5% after increasing 5.1% in December. Durable goods orders have declined two of the last three months with the January decrease. Excluding transportation, new orders increased 0.7% in January. Excluding defense, new orders decreased 5.1%. Transportation equipment, also down two of the last three months, contributed to the January decrease, falling 13.3%. Under transportation, new orders for nondefense aircraft and parts plunged 54.6% in January, while new orders for defense aircraft and parts rose 5.5%. New orders for capital goods decreased 12.8% in January, pulled lower by a 15.3% decline in new orders for nondefense capital goods. New orders for defense capital goods rose 3.8%.
- **Imports and exports:** January saw import prices fall 0.2%, following a revised 0.1% decline in December. Import prices have not advanced since June 2022. Despite the recent declines, prices for U.S. imports rose 0.8% over the past year, the smallest year-over-year increase since the period ended in December 2020. Import fuel prices decreased 4.9% in January after falling 4.4% in December. Import





petroleum prices have not recorded a 1-month advance since June 2022. Nonfuel import prices climbed 0.3% in January after advancing 0.4% in December. Nonfuel import prices rose 0.8% in since January 2022, the smallest annual advance since August 2020. Export prices rose 0.8% in January, the first monthly increase since June 2022. Exports rose 2.3% over the past 12 months, the smallest over-the-year advance since December 2020.

- The international trade in goods deficit was \$91.5 billion in January, up \$1.8 billion, or 2.0%, from December. Exports of goods for January were \$736.8 billion, \$7.0 billion, or 4.2%, more than December exports. Imports of goods were \$265.3 billion in January, \$8.8 billion, or 3.4%, more than in December. The January increase in exports was largely attributable to a 14.8% jump in consumer goods and an 8.2% increase in automotive vehicles. In January, auto imports were up 9.0%, while imports of consumer goods rose 6.4%.
- The latest information on international trade in goods and services, released February 7, is for December and shows that the goods and services trade deficit was \$67.4 billion, an increase of \$6.4 billion from the November deficit. December exports were \$250.2 billion, \$2.2 billion, or 0.9%, less than November exports. December imports were \$317.6 billion, \$4.2 billion, or 1.3%, more than November imports. For 2022, the goods and services deficit increased \$103.0 billion, or 12.2%, from 2021. Exports increased \$453.1 billion, or 17.7%. Imports increased \$556.1 billion, or 16.3%.
- **International markets:** The Organization for Economic Co-operation and Development (OECD) recently indicated that the global economic outlook is slightly brighter this year, although inflation remains a challenge. As Russia's war with Ukraine approaches its second year, energy and food prices, which had moved higher, impacted by the war, are now substantially lower. Nevertheless, inflation remains elevated, prompting the central banks of several countries to continue to hike interest rates. The European Central Bank and the Bank of England raised rates by 50.0 basis points in February. Despite stubborn inflation, global economies seem to be rebounding. The Eurozone S&P purchasing managers' index for services in February reached its highest level since May 2022. The United Kingdom's Consumer Price Index retreated to 10.1% over the 12 months ended in January, down from 10.5% for the 12 months ended in December. For February, the STOXX Europe 600 Index added 1.8%; the United Kingdom's FTSE advanced 1.2%; Japan's Nikkei 225 Index gained 0.4%; and China's Shanghai Composite Index rose 0.7%.
- **Consumer confidence:** The Conference Board Consumer Confidence Index® decreased in February for the second consecutive month. The index stands at 102.9, down from 106.0 in January. The Present Situation Index, based on consumers' assessment of current business and labor market conditions, rose to 152.8 in February, up from 151.1 in the previous month. The Expectations Index — based on consumers' short-term outlook for income, business, and labor market conditions — fell to 69.7 in February, down from 76.0 in January. According to the Conference Board's report, an Expectations Index reading below 80.0 could signal a recession within the next year. It has been below this level for 11 of the past 12 months.


Eye on the Month Ahead

Inflation accelerated in February after showing signs of slowing in the previous month. Investors hope March data will show price pressures begin to decelerate again. Rising inflation and strong job growth support more rate hikes from the Federal Reserve when it next meets in late March.

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI, Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e., wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations. All information is based on sources deemed reliable, but no warranty or guarantee is made as to its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes a solicitation for the purchase or sale of any securities, and should not be relied on as financial advice. Forecasts are based on current conditions, subject to change, and may not come to pass. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities and other bonds fluctuates with market conditions. Bonds are subject to inflation, interest-rate, and credit risks. As interest rates rise, bond prices typically fall. A bond sold or redeemed prior to maturity may be subject to loss. Past performance is no guarantee of future results. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

The Dow Jones Industrial Average (DJIA) is a price-weighted index composed of 30 widely traded





blue-chip U.S. common stocks. The S&P 500 is a market-cap weighted index composed of the common stocks of 500 largest, publicly traded companies in leading industries of the U.S. economy. The NASDAQ Composite Index is a market-value weighted index of all common stocks listed on the NASDAQ stock exchange. The Russell 2000 is a market-cap weighted index composed of 2,000 U.S. small-cap common stocks. The Global Dow is an equally weighted index of 150 widely traded blue-chip common stocks worldwide. The U.S. Dollar Index is a geometrically weighted index of the value of the U.S. dollar relative to six foreign currencies. Market indexes listed are unmanaged and are not available for direct investment.

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