Liberty National Wealth Management Newsletter

Quarterly Market Insights

A review of Q4 2022, Presented by Liberty National Wealth Management

U.S. Markets

Stocks ended a volatile fourth quarter with a slight gain, which helped repair some of the damage since the beginning of the year.

For much of the quarter, sentiment was boosted by stronger-than-expected earnings, a deceleration in inflation, and a growing belief that the Fed may start to scale back on the pace of interest rate hikes. But the upbeat mood soured in December as recession fears were rekindled by ongoing Fed hawkishness.

The Dow Jones Industrial Average gained 15 percent for the three months, while the Standard & Poor's 500 tacked on 7 percent. The tech-heavy Nasdaq lagged, slipping 1 percent. [1]

An October Rally

The quarter opened on a volatile note as stocks reacted to both international news and domestic economic updates. An above-consensus inflation report sent stocks to levels not seen since 2020 before mounting an impressive turnaround that by day's end had witnessed the Dow Industrials climbing 1,500 points from their midday low. [2]

The market stabilized as third quarter earnings started rolling in. Early earnings reports calmed some fears of deteriorating profits and pushed Fed policy concerns into the background.

November Follow Through

Stocks added to their gains in November based on growing investor optimism for a slowdown in future rate hikes. After the Federal Open Market Committee (FOMC) announced a 75 basis point rate hike at the start of the month, stocks retreated on hawkish comments by Fed Chair Jerome Powell in his post-meeting press conference. Markets staged a quick recovery, though, following a cooler-than-expected inflation number that ignited a powerful rally that lifted stocks to their biggest one-day gain in two years. [3]

December Blues

Stocks opened in December by surrendering some of the October and November gains as recession fears and concerns over higher rates once again dragged on investor sentiment. The Fed announced another rate hike of 50 basis points, but it was the increase in the terminal rate (i.e., the rate at which the Fed stops further rate hikes) that elevated recession worries and closed the quarter and the year on a muted note.

Quarterly Sector Scorecard

Ten sectors notched solid gains for the quarter, but Consumer Discretionary was under pressure (−9.33 percent). Energy (+21.45 percent), Industrials (+18.55 percent), Materials (+14.22 percent), Financials (+12.65 percent), Health Care (+12.17 percent), and Consumer Staples (+11.72 percent) posted double-digit gains. Utilities (+7.62 percent), Technology (+4.96 percent), Real Estate (+2.55 percent) and Communications Services (+0.21 percent) also posted gains. [4]

MARKET INDEX	Y-T-D % CHANGE	Q4 % CHANGE	December 2022 %
Russell 1000	-20.41%	6.77%	-5.95%
NASDAQ	-33.10%	-1.03%	-8.73%
S&P 500	-19.44%	7.08%	-5.90%

BOND YIELD	Y-T-D % CHANGE	Q4 % CHANGE	December 2022 %
10 YR TREASURY	2.37%	0.08%	3.88%

Sources: Yahoo Finance, December 31, 2022

The market indexes discussed are unmanaged and generally considered representative of their respective markets. Individuals cannot directly invest in unmanaged indexes. Past performance does not guarantee future results. U.S. Treasury Notes are guaranteed by the federal government as to the timely payment of principal and interest. However, if you sell a Treasury Note prior to maturity, it may be worth more or less than the original price paid.

What Investors May Be Talking About in January

In the month ahead, expect the market spotlight to fall on three key dates.

The first will come on January 12th with the December Consumer Price Index report. A continued slowdown in inflation may help lift some pressure on the Fed to raise interest rates. [5]

The second will be on January 26th with the initial reading of the fourth-quarter gross domestic product. A healthy number may be a relief to those worried about an imminent recession, or it could be viewed as a reason for the Fed to maintain its hawkish rate hike path. [5]

Finally, the FOMC will open its two-day meeting on January 31st. The forward-looking markets tend to focus on what Fed Chair Powell says about the direction of the economy in the post-meeting press conference. [5]

World Markets

International markets were flat in December, with the MSCI-EAFE Index checking in with a loss of 0.01 percent. [6]

European markets trended lower on fears of a difficult winter, with losses posted in Germany (−3.29 percent), Italy (−3.67 percent), France (−3.93 percent), and the U.K. (−1.60 percent). [7]

Pacific Rim markets were mixed with Hong Kong jumping 6.37 percent on further China reopening steps. Meanwhile, Australia dropped 3.37 percent and Japan fell 6.70 percent. [8]

Indicators

Gross Domestic Product (GDP): The final estimate of third quarter GDP growth was revised higher, from an annualized rate of 2.9 percent to 3.2 percent. The revision was due to an increase in an earlier estimate of personal consumption. [9]

Employment: The economy added 263,000 new jobs in November, a result that was above the consensus estimate of 200,000. The unemployment rate was unchanged at 3.7 percent. Wages rose 0.6 percent for the month, which was double the estimate. Additionally, wages rose 5.1 percent year-over-year, which was above the forecast of 4.6 percent. [10]

Retail Sales: Retail sales fell 0.6 percent as holiday shopping got off to a muted start. It was the biggest decline in nearly a year. [11]

Industrial Production: Output from the nation's factories, mines, and utilities declined for the second straight month, falling 0.2 percent in November. [12]

Housing: Housing starts fell 0.5 percent, dragged lower by a decline of 4.1 percent in single family home starts. Permits for future home construction slumped 11.2 percent. [13]

Sales of existing homes dropped 7.7 percent from October and 35.4 percent from the previous year. November's decline was the 10th straight month of declining sales. Higher mortgage rates combined with elevated home prices kept many would-be buyers on the sidelines. [14]

New home sales posted a surprise month-over-month increase of 5.8 percent, though year-over-year sales dropped 15.3 percent. [15]

Consumer Price Index (CPI): Prices of consumer goods and services rose just 0.1 percent in November and increased 7.1 percent year-over-year. Both figures came in under consensus estimates of 0.3 percent and 7.3 percent, respectively. Core prices (excluding food and energy) also came in slightly lower than expectations. Declines in energy and used car prices more than offset the higher prices for food and shelter. [16]

Durable Goods Orders: Durable goods orders fell 2.1 percent, pulled lower by a sharp drop in aircraft orders (−36.0 percent). [17]

The Fed

In its mid-December FOMC meeting, the Fed approved a hike in its federal funds rate of 0.50 percent, while indicating its plan to raise rates further in 2023 to combat inflation.

In his press conference following the news, Fed Chair Powell suggested that the next hike may be a quarter percentage point increment. FOMC members lifted the terminal rate (i.e., the rate at which hikes would come to an end) to between 5 percent and 5.5 percent, up from their projection of 4.6 percent in September. [18]

If you are interested in learning more about the services Liberty National Bank can provide, please contact us for a free consultation at our wealth management locations in Downtown Sioux Falls or Dakota Dunes.

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common stocks and similar securities listed on the Nasdaq stock market and considered a broad indicator of the performance of stocks of technology and growth companies. The Russell 1000 Index is an index that measures the performance of the highest-ranking 1,000 stocks in the Russell 3000 Index, which is comprised of 3,000 of the largest U.S. stocks. The MSCI EAFE Index was created by Morgan Stanley Capital International (MSCI) and serves as a benchmark for the performance in major international equity markets, as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia. Index performance is not indicative of the past performance of a particular investment. Past performance does not guarantee future results. Individuals cannot invest directly in an index. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

International investments carry additional risks, which include differences in financial reporting standards, currency exchange rates, political risks unique to a specific country, foreign taxes and regulations, and the potential for illiquid markets. These factors may result in greater share price volatility.

The Hang Seng Index is a benchmark index for the blue-chip stocks traded on the Hong Kong Stock Exchange. The KOSPI is an index of all stocks traded on the Korean Stock Exchange. The Nikkei 225 is a stock market index for the Tokyo Stock Exchange. The SENSEX is a stock market index of 30 companies listed on the Bombay Stock Exchange. The Jakarta Composite Index is an index of all stocks that are traded on the Indonesia Stock Exchange. The Bovespa Index tracks 50 stocks traded on the Sao Paulo Stock, Mercantile, & Futures Exchange. The IPC Index measures the companies listed on the Mexican Stock Exchange. The MERVAL tracks the performance of large companies based in Argentina. The ASX 200 Index is an index of stocks listed on the Australian Securities Exchange. The DAX is a market index consisting of the 30 German companies trading on the Frankfurt Stock Exchange. The CAC 40 is a benchmark for the 40 most significant companies on the French Stock Market Exchange. The Dow Jones Russia Index measures the performance of leading Russian Global Depositary Receipts (GDRs) that trade on the London Stock Exchange. The FTSE 100 Index is an index of the 100 companies with the highest market capitalization listed on the London Stock Exchange.

Please consult your financial professional for additional information.

CITATIONS:

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2. CNBC.com, October 12, 2022

3. BLS.gov, November 10, 2022

4. SectorSPDR.com, December 31, 2022

5. Finance.Yahoo.com, January 2, 2023

6. MSCI.com, December 31, 2022

7. MSCI.com, December 31, 2022

8. MSCI.com, December 31, 2022

9. FoxBusiness.com, December 22, 2022

10. CNBC.com, December 2, 2022

11. WSJ.com, December 15, 2022

12. MarketWatch.com, December 15, 2022

13. Reuters.com, December 20, 2022

14. CNBC.com, December 21, 2022

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