MONTHLY MARKET UPDATE

January 2023

OPAL WEALTH ADVISORS

Markets in January seemed to look past the weakening global growth backdrop and global central bank hawkishness, turning in a strong rally across global risk assets. Market internals represented a mirror image to 2022 with declining interest rates, a weakening USD, and a strong rally across high valuation lower quality growth stocks. Strong labor markets, decelerating inflation data, and resilient consumption trends continued in January. Clear evidence of declining corporate fundamentals in terms of profits and profit margins were evident throughout fourth quarter earnings reports with YoY blended earnings (-4.9%) and revenue (+4.6%) coming in soft as expected. The FOMC 'stepped down' the magnitude of rate hikes to 25 bps but made clear their battle to contain inflation is not over due to tight labor markets (wage inflation) and absolute measures of prices still running well above target. China continued to press forward with their bungled Covid reopening initiatives while weighing the need for stimulus measures to stabilize their economy.

January delivered very favorable equity market returns with Europe ex-UK (+9.3%) and China (+11.8%) leading the way while U.S (+6.5%) was not far behind. The MSCI EAFE return of 8.1% was its best start to a year since 1994. Bond markets rebounded thanks to declining interest rates as the 10yr UST yield fell from 3.88% to 3.52% and the 2yr UST yield fell from 4.41% to 4.21%. The Barclays Aggregate Bond Index returned 3.08% on the month while high yield (+3.81%) and municipals (+2.87%) benefited as well.

Market Anecdotes

- Bespoke notes this was the sixth time since WW2 that we've seen the S&P gain 5%+ in January after posting a negative return in the prior years.
- With a far greater percentage of S&P 500 companies now carrying fixed rate debt, the surge in rates ought to have a more delayed and measured impact on debt service costs. The same cannot be said however for borrowers in syndicated and middle market direct lending areas.
- While labor market resilience feels contrary to layoff announcements in the technology and banking sectors, their size relative to leisure and hospitality may explain the divergence.
- The Beveridge Curve which illustrates a tight inverse relationship between job vacancies and unemployment may be the most important factor to monitor in 2023 as to whether tight labor markets can be loosened by reducing vacancies rather than increasing unemployment.
- Favorable equity market trends so far in 2023 include European markets, small caps, multinationals with high percentages of foreign sales, and last year's losers (low quality stocks) in what might be considered a dash for trash.
- While M2 growth has fallen from 26% YoY at the pandemic peak to 0% recently, consumer savings, bank deposits, and money market funds all remain very elevated.
- A close look at U.S. housing market metrics shows how rising interest rates have translated to notably higher mortgage debt service but risks of downward pressure in housing prices leaving large swaths of homeowners with negative equity, ala 2008, is still fairly remote.
- The need for some form of accommodation in China is supported given annual GDP slowed from 8.4% in 2021 to 3.0% in 2022 and q/q GDP slowed from 3.9% in Q3 to 0.0% in Q4 (3.9% y/y to 2.9% y/y).
- Coincidentally, Bespoke notes that from the time since Tom Brady replaced Drew Bledsoe on 9/23/01 through his (second) announced retirement, the Nasdaq's annualized total return rounds to... 12% (11.6%).

Economic Release Highlights

- The PIO report revealed inline and decelerating YoY PCE headline and core inflation of 5.5% vs 5.5% and 4.4% vs 4.4% alongside MoM readings of 0.1% vs 0.0% and 0.3% vs 0.3%. The report also showed strong Personal Consumption

Expenditures (2.1% vs 2.6%) and inline/accelerating Personal Income growth of (0.2% vs 0.2%).

- CPI cooled modestly on a YoY basis from 6.5% (-0.1% MoM) in December to 6.4% (0.5% MoM) in January but came in higher than consensus expectations. Core also moderated (YoY) from 5.7% (0.3% MoM) to 5.6% (0.4% MoM) but beat expectations.
- The first estimate of 4Q GDP registered 2.9%, slightly ahead of consensus 2.7% but squarely within the forecast range of 1.2% to 3.5%.
- Retail Sales missed expectations for headline (-1.1% vs -0.8%), ex-vehicles (-1.1% vs -0.5%), and ex-vehicles & gas (-0.7% vs -0.1%).
- January payrolls surged 571,000 with upward revisions of 71,000 to prior months. The Household survey showed a gain of +894,000 and the unemployment rate declining to 3.4% while labor force participation improved to 62.4%.
- Average Hourly Earnings of 0.3% MoM and 4.4% YoY were in line with forecasts. The BLS Employment Cost Index rose 1%. The JOLT Survey registered 11.01mm job openings, an increase of 5.48%.
- The UofM Consumer Confidence reading in January improved notably from 59.7 to 64.9 with improvements across headline, current conditions, and future expectations measures.
- The NFIB Small Business Optimism Index registered 90.3, right in line with the consensus expectation of 91.3.
- January ISM Manufacturing Index softened slightly to 47.4 while ISM Services surged from 49.2 to 55.2
- January U.S. flash PMIs (C, M, S) of 46.6, 46.8, 46.6 were slightly above consensus estimates. Non-U.S. PMIs (C, M, S) show Japan (50.8, 48.9, 52.4), Eurozone (50.2, 48.8, 50.7), U.K. (47.8, 46.7, 48.0).
- New Home Sales of 616k registered right at the forecasted consensus call. Pending Home Sales grew 2.5%, well above the consensus call of -1.0%. The Case-Shiller Home Price Index rose 6.78% YoY.
- January's Housing Market Index registered 35, ahead of consensus and above the high end of the range. Housing Starts (1.382MM) and Permits (1.330MM) registered in the middle of their expected ranges, slightly above and below their spot estimates respectively. Existing Home Sales fell 1.5%MoM and 34%YoY, registering 4.02MM, slightly ahead of consensus estimates.

Outlook

A January rally across those pockets in the market most impacted in 2022 (bonds, mega cap growth) leaves investors questioning whether a new regime has begun. While we may be in for a favorable bounce off a historically difficult 2022, we're not so sure over the intermediate term with very mixed global growth indications, a lumpy Chinese reopening, and persistently hawkish central banks.

Looking forward, we see recession risks more prevalent in the back half of next year or early 2024, but a recession is still not a foregone conclusion. We see stop-start conditions in capital markets favoring periodic tactical (0-6 months) asset allocation shifts rather than a decided pro-growth or defensive investment posture until we get closer to the last Fed rate hikes. The market is likely overly optimistic about prospects for rate cuts in 2023.

We have a relatively favorable technical backdrop in the equity markets but are continuing to recommend a tight neutral position toward equities relative to respective benchmarks with routine rebalancing into pockets of strength. From a geography perspective, we are neutral U.S. to non-U.S. but did recently upgrade developed international markets and are closely monitoring China for market relevant policy shifts.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	34086	2.93	4.68	2.93	(0.92)	8.68
NASDAQ	11585	10.72	5.69	10.72	(17.95)	9.04
S&P 500	4077	6.28	5.76	6.28	(8.22)	9.88
Russell 1000 Growth		8.33	4.60	8.33	(16.02)	9.89
Russell 1000 Value		5.18	7.25	5.18	(0.43)	8.54
Russell 2000		9.75	5.02	9.75	(3.38)	7.51
Russell 3000		6.89	5.88	6.89	(8.24)	9.51
MSCI EAFE		8.11	20.43	8.11	(2.33)	4.74
MSCI Emg Mkts		7.91	22.25	7.91	(11.73)	1.77
Fixed Income	**Δ Yield**	**1 Mo**	**3 Mo**	**YTD**	**1 Yr**	**3 Yr**
US Aggregate	2.15	(0.24)	0.12	(0.24)	0.52	(0.26)
High Yield	5.41	(0.65)	0.23	(0.65)	1.41	0.40
Municipal	1.68	(0.19)	(0.05)	(0.19)	0.07	(0.24)

Commodities	1/31/23	11/30/22	8/31/22	5/31/22
Oil (WTI)	74.11	80.48	90.09	114.38
Gold	1923.90	1753.50	1715.90	1838.70

Currencies	1/31/23	11/30/22	8/31/22	5/31/22
USD/Euro ($/€)	1.08	1.04	1.00	1.07
USD/GBP ($/£)	1.23	1.20	1.16	1.26
Yen/USD (¥/$)	130.17	139.31	138.69	128.53

Treasury Rates	1/31/23	11/30/22	8/31/22	5/31/22
3 Month	4.70	4.37	2.96	1.16
2 Year	4.21	4.38	3.45	2.53
5 Year	3.63	3.82	3.30	2.81
10 Year	3.52	3.68	3.15	2.85
30 Year	3.65	3.80	3.27	3.07

Style Returns

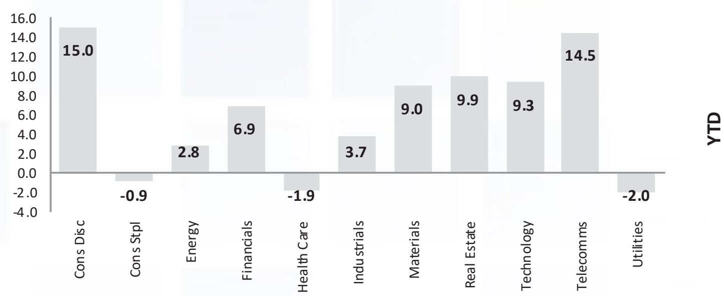
MTD

	V	B	G
L	5.18	6.70	8.33
M	8.08	8.30	8.73
S	9.54	9.75	9.95

YTD

	V	B	G
L	5.18	6.70	8.33
M	8.08	8.30	8.73
S	9.54	9.75	9.95

S&P 500 Sector Returns



OPAL WEALTH ADVISORS

Opal Wealth Advisors / 2 Jericho Plaza / Suite 208 / Jericho, NY 11753 / t. 516.388.7980 / f. 516.388.7968 / **opalwealthadvisors.com**