RAYMOND JAMES

Monthly Market Review

Risk Asset Rally Heats Up As Volatility Cools

January 2023

Easing Inflation & Rate Hike Expectations Help Break The Ice For Most Risk Assets

Monthly Highlights

- Stronger Than Expected 4Q22 GDP Brings Full Year Growth For The US Economy To +2.1%.
- US Reaches Debt Ceiling, Triggering The Treasury To Undertake 'Extraordinary Measures.'
- Labor Market Adds +4.5 Million Jobs In 2022 While Openings Remain Above 10 Million.
- The Annual Pace Of Core Inflation Eases To The Slowest Pace Since December 2021.
- The Bloomberg US Aggregate Bond Index Is Having Its Best Start To A Year Since 1988.
- Investment-Grade Spreads Contract To The Lowest Level Since April 2022.
- Emerging Market Bonds Post Second Best Month Since May 2020 Amid A Weaker Dollar.
- Both Global Equities & The S&P 500 Off To The Best Start To A Year Since 2019.
- S&P 500 Earnings On Pace To Notch First Negative Quarter Of Growth Since 3Q20.
- Small-Cap Equities Outperform Large Cap By The Widest Margin Since February 2022.
- 8 of the 11 S&P 500 Sectors In Positive Territory Led By Consumer Discretionary (+15.0%).
- US Dollar Index Declines For Four Consecutive Months For The First Time Since August 2020.
- Natural Gas Prices Reach Lowest Level Since April 2021 Amid The Warmest January Since 2006.

Economy | Debt Limit To 'Freeze' Spending As Debates In Congress Begin.

- The preliminary reading of **4Q22 GDP** was above consensus expectations (+2.9% quarter-over-quarter (QoQ)), with personal consumption expenditures contributing 1.4%. Goods spending (+1.1%) surprised to the upside as the GDP Price Index showed that firms lowered prices to generate sales. For the full year, the US economy grew 2.1% compared to 2021.
- **Federal Reserve (Fed)** Chairman Powell cautioned that 'unpopular' decisions may be necessary in order to ease inflation and restore price stability. Regardless, moderating inflation led the markets to expect another slowing in the pace of rate hikes at the Fed's next meeting (Jan 31 – Feb 1)—a 25 basis point increase to bring the target range to 4.5-4.75%.
- The US reached the **debt limit**, forcing the Treasury Department to undertake 'extraordinary measures' that could exhaust funding by early summer.
- As the **Russia-Ukraine war** approaches its one-year mark, the US and Germany shifted their stance and agreed to send infantry fighting vehicles to Ukraine.
- **January ISM Manufacturing** (47.4) remained in contraction territory (a level below 50) as New Orders weakened to the lowest level (42.5) since May 2020.
- The **unemployment rate** returned (3.5%) to the lowest level in 50+ years. While the pace of job gains slowed, the economy added 223k **jobs** in December, bringing the year-to-date total to over +4.5 million.
- The four-week average of **jobless claims** (198k) declined to the lowest level since May, and job openings (+11 million) rose to the highest level since July.
- Inflationary pressures eased, as the year-over-year pace of **headline inflation** (+6.5% YoY) moderated for the sixth consecutive month. **Core CPI** also eased, with the year-over-year pace the slowest since December 2021. Driven by a sharp decline in used vehicle prices (-2.5% MoM), core goods prices are declining at the fastest three-month annualized pace on record.
- **Consumer confidence** (107.1) declined for the third time in four months despite the 'present situations' subsector rising to the highest level since May.
- **Core retail sales** (ex. food, autos, and gas, -0.7% month-over-month (MoM)) posted the worst month since December 2021 as more cautious consumers spent less on categories such as furniture and clothing.
- **Housing data** was predominantly negative as existing home sales (-1.5%), housing starts (-1.4%), and building permits (-1.0%) all declined while only new home sales (+2.3%) were positive. The year-over-year pace of home prices (October Case Shiller 20-City Composite +6.8%) decelerated to the slowest pace since August 2020 as the Index declined for the fifth straight month.
- **China's Manufacturing PMI** (50.1) was in expansion territory for the first time since September.
- **Euro Zone Manufacturing PMI** (48.8) remained in contraction territory for the seventh straight month. Sentiment (98.0) rose to the highest level since June.

Fixed Income | Falling Global Yields Allow Fixed Income Returns To 'Warm Up.'

- The **Bloomberg US Aggregate Bond Index** (+3.1% MoM) rallied for the second time in six months, posting its second best month since December 2008, and is off to the best start for a year since 1988. It was a broad fixed income rally in January as cooling pricing pressures led to both a decline in yields and a dialing back of Fed rate hike expectations.
- **US Investment-grade bonds** (+4.0% MoM) rallied for the second time in six months and posted the second best month since April 2020 as IG spreads declined to the lowest level (117 bps) since April.
- **High-yield bonds** (+3.8% MoM) posted their second best month since November 2020 as spreads declined to the lowest level (420 bps) since August.
- **Emerging market bonds** (+3.2% USD MoM) rallied for the third consecutive month amid a weakening dollar and China loosening COVID restrictions.
- **Municipals** (+2.9% MoM) rallied for the third consecutive month and posted their second best month since May 2020. All muni sectors (High Yield, Revenue, and GO) were in positive territory.
- **International sovereign bonds** (G7 ex. US +2.8% MoM) rallied for three consecutive months for the first time since December 2020. The decline in global bond yields and dollar weakness boosted the asset class.
- **Treasurys** (+2.5% MoM) rallied for the second time in six months and are having the best start to a year since 2015. The 10-year Treasury yield declined 35 basis points during the month (the second largest monthly decline in ~ 3 years) on the back of easing inflation and reduced expectations for Fed tightening.
- **TIPS** (+1.3% MoM) posted their best month since July but underperformed nominal Treasurys for the fourth time over the last five months.

Equities | Reduced Tightening Expectations Help Most Equity Regions 'Thaw Out.'

- **Global equities** (MSCI All Country World Index +7.2% USD MoM) posted their second best month since November 2020 and are having the best start to a year since 2019. The easing of pricing pressures, reduced expectations for future central bank tightening and China reopening supported global equities.
- **US Small-Cap** equities (Russell 2000 +9.7% MoM) outpaced large cap for the first time in three months and by the widest margin since February 2022.
- **European equities** (MSCI Europe ex UK +9.4% USD MoM) rallied for four consecutive months for the first time since May 2021 and outperformed global equities for the second straight month.
- **Emerging market equities** (MSCI EM +7.9% USD MoM) rallied for the second time in three months but underperformed the developed markets (MSCI EAFE +8.1%) for the fourth time in five months.
- Within EM, **Asia** (MSCI Asia ex JP +8.2% USD MoM) was outpaced by **LATAM** (MSCI LATAM +9.9% USD MoM) for the first time in three months. The latter posted its second best month since July 2020.
- **US Large-Cap** equities (S&P 500 +6.3% MoM) rallied for the third time in four months and are having their best start to a year since 2019. US equities were boosted by moderating inflation and expectations that the Fed could pivot from its hawkish stance and implement a rate cut before year end.
- 8 of the 11 **S&P 500 sectors** were positive, with 2022 laggards (Consumer Discretionary & Communication Services) the largest outperformers.
- **Japanese equities** (MSCI Japan +6.2% USD MoM) rallied for four consecutive months for the first time since December 2019; however, they underperformed global equities for the first time in three months.

Commodities | Falling Energy Prices Put The Broader Index 'Out In The Cold.'

- The **Bloomberg Commodity Index** (-0.9% MoM) declined for the fourth time in six months, but there was still dispersion beneath the surface. While China's reopening boosted prices for industrial metals, natural gas prices sharply declined amid warmer than expected temperatures in January.
- The **US Dollar Index** (-1.4% MoM) declined for the fourth consecutive month—the longest streak of monthly declines since August 2020. The US Dollar Index declined to the lowest level since April intra-month on reduced expectations for future Fed rate hikes and better than feared data in Europe.
- The **Bloomberg Softs Index** (+8.2% MoM) rallied for the third consecutive month. Both sugar (+8.6%) and coffee (+7.3%) prices contributed to the rally.
- The **Bloomberg Industrial Metals Index** (+7.7% USD MoM) rallied for the third consecutive month. Both copper (+10.9%) and aluminum (+8.6%) rallied as China's reopening boosted demand expectations.
- The **Bloomberg Precious Metals Index** (+4.0% MoM) rallied for the third consecutive month—an impressive feat after ending the longest streak of monthly declines in over three decades in November. Strength in gold prices (+6.5%) contributed to the rally and offset weakness in silver prices (-0.8%).
- The **Bloomberg Grains Index** (-3.6% MoM) declined for the first time in four months on the back of declining wheat (-9.8% MoM) prices.
- The **Bloomberg Energy Index** (-10.0% MoM) declined for the fourth time in five months. Crude oil prices declined (-1.7%), but the sector's weakness was predominantly driven by natural gas prices (-34.6%) which fell to their lowest level since April 2021 as the US experienced its warmest January since 2006.

Figure 1: ISM Manufacturing Remains In Contraction Territory

The ISM Manufacturing Index remained in contraction territory for the third consecutive month as new orders weakened (42.5 versus 45.2 in December).

Figure 2: Reduced Fed Tightening Expectations Boost Most Sectors

Eight of the eleven S&P 500 sectors were positive for the month, with the 2022 laggards (Consumer Discretionary (+15.0%) and Communication Services (+14.5%)) the largest outperformers.

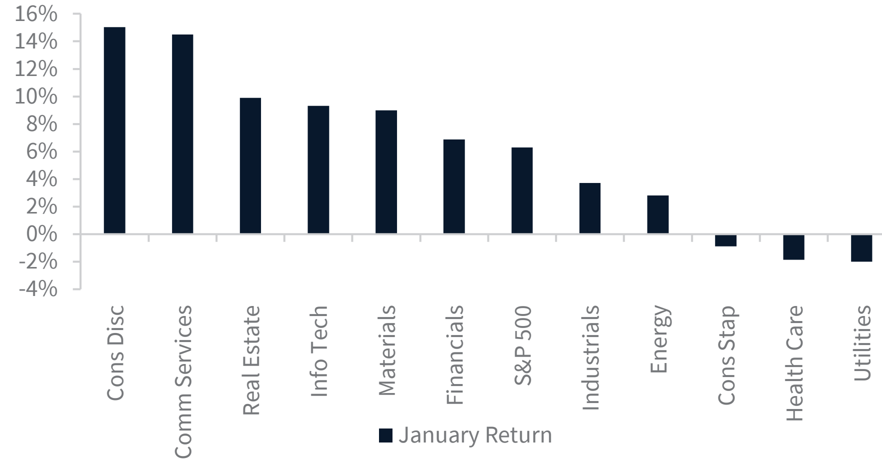


Figure 3: Aggregate Bond Index Posts Best January Since 1988

The Bloomberg US Aggregate Bond Index posted its second best month since December 2008 and is off to its best start to a year since 1988.

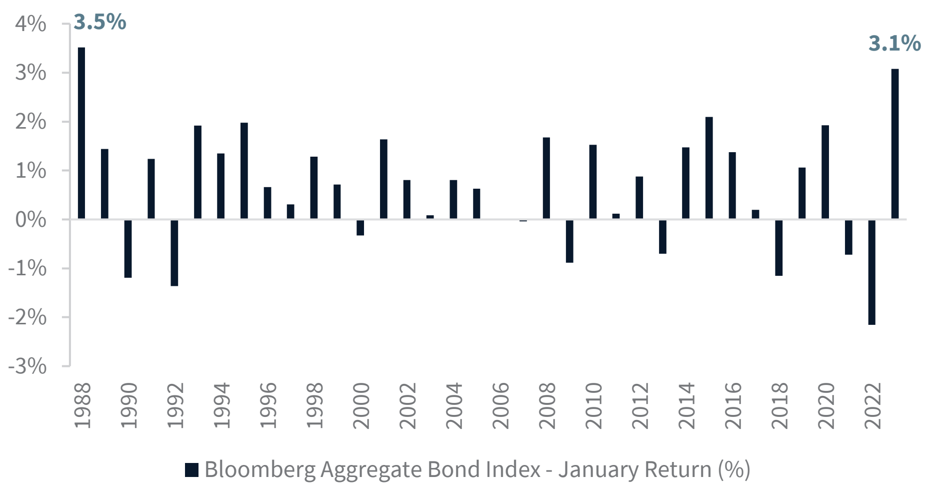
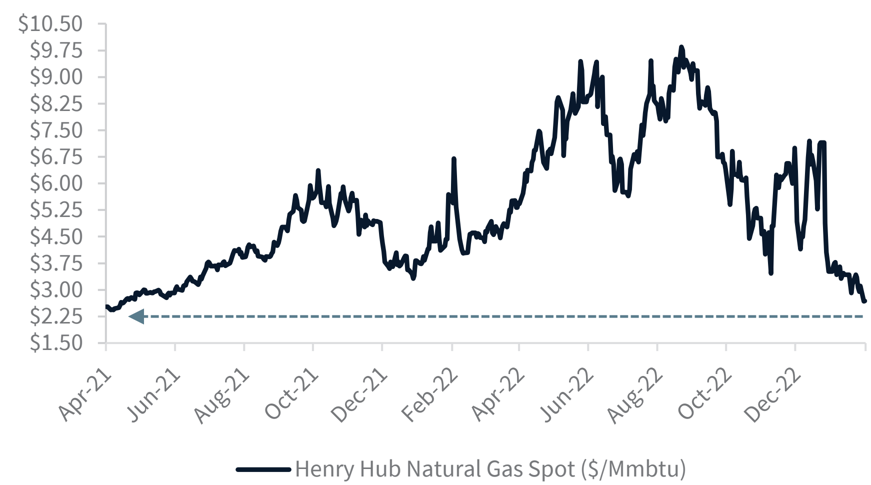


Figure 4: Natural Gas Prices At The Lowest Level Since April 2021

Natural gas prices declined nearly 35% in January to reach the lowest level since April 2021, which contributed to the Bloomberg Energy Index declining for the fourth time in five months.



Fixed Income | Sovereign Bond Yields On The Decline

	January	1 Year	3 Year	5 Year	10 Year
US Investment Grade	4.0%	-9.3%	-2.4%	1.4%	2.4%
High Yield	3.8%	-5.2%	1.3%	3.0%	4.3%
EM Bonds	3.2%	-10.2%	-3.4%	0.2%	2.1%
US Aggregate	3.1%	-8.4%	-2.3%	0.9%	1.4%
Municipals	2.9%	-3.2%	-0.4%	2.1%	2.4%
International Bonds	2.8%	-17.7%	-7.8%	-4.3%	-2.1%
Treasuries	2.5%	-8.5%	-2.6%	0.7%	0.9%
TIPS	1.3%	-5.0%	2.0%	2.9%	1.4%

Equities | Small Cap Outperforms Large Cap

	January	1 Year	3 Year	5 Year	10 Year
Russell 2000 Growth	9.9%	-6.5%	4.3%	4.7%	9.5%
Russell 2000	9.7%	-3.4%	7.5%	5.5%	9.4%
Russell 2000 Value	9.5%	-0.5%	9.9%	5.8%	8.8%
Russell 1000 Growth	8.3%	-16.0%	9.9%	11.2%	14.5%
Russell 1000	6.7%	-8.5%	9.7%	9.4%	12.5%
S&P 500	6.3%	-8.2%	9.9%	9.5%	12.7%
Russell 1000 Value	5.2%	-0.4%	8.5%	6.9%	10.2%
DJ Industrial Average	2.8%	-3.0%	6.5%	5.4%	9.4%

Commodities & FX | Natural Gas Prices Detract From Energy Sector

	January	1 Year	3 Year	5 Year	10 Year
Copper	10.9%	-2.3%	18.9%	5.7%	1.3%
BBG Industrial Metals	7.7%	0.0%	18.9%	5.1%	1.2%
Gold	6.5%	8.3%	7.0%	7.7%	1.6%
BBG Precious Metals	4.0%	4.5%	5.1%	4.8%	-1.3%
BBG Commodity Index	-0.9%	3.7%	14.3%	4.5%	-2.4%
US Dollar Index	-1.4%	5.8%	1.6%	2.8%	2.6%
Crude Oil (WTI)	-1.7%	-10.5%	15.2%	4.0%	-2.1%
BBG Energy Index	-10.0%	-1.6%	7.0%	-1.3%	-8.7%

International Equities (in USD) | Developed Markets Outperform EM Equities

	January	1 Year	3 Year	5 Year	10 Year
MSCI LATAM	9.9%	12.1%	0.6%	-1.3%	-1.2%
MSCI Europe ex UK	9.4%	-3.6%	6.3%	3.6%	6.3%
MSCI Asia ex JP	8.2%	-9.9%	3.0%	-0.2%	4.5%
MSCI EAFE	8.1%	-2.3%	4.7%	2.6%	5.4%
MSCI EM	7.9%	-11.7%	1.8%	-1.1%	2.4%
MSCI AC World	7.2%	-7.5%	7.3%	6.1%	8.8%
MSCI UK	6.5%	0.5%	3.8%	1.7%	3.4%
MSCI Japan	6.2%	-6.4%	1.9%	0.9%	6.2%

S&P 500 Sectors | Reduced Tightening Expectations Boost Most Sectors

	January	1 Year	3 Year	5 Year	10 Year
Cons Disc	15.0%	-19.8%	6.1%	7.2%	12.7%
Comm Services	14.5%	-26.6%	0.8%	3.6%	5.3%
Real Estate	9.9%	-11.3%	4.6%	8.3%	8.5%
Info Tech	9.3%	-15.7%	13.5%	16.2%	19.2%
Materials	9.0%	2.6%	16.1%	8.4%	10.3%
Financials	6.9%	-4.4%	9.2%	6.5%	12.3%
Industrials	3.7%	2.9%	9.8%	7.0%	11.7%
Energy	2.8%	43.0%	25.2%	9.0%	5.5%
Cons Stap	-0.9%	-0.1%	8.8%	8.3%	10.3%
Health Care	-1.9%	3.2%	12.3%	10.7%	14.0%
Utilities	-2.0%	2.9%	3.3%	9.8%	10.3%

Key Asset Class Levels

	January	1 Year	3 Year	5 Year	10 Year
S&P 500	4,077	4,516	3,226	2,824	1,498
DJIA	34,086	35,132	28,256	26,149	13,861
MSCI AC World	648	717	559	542	355
S&P 500 Dividend Yield	1.70	1.44	1.92	1.87	2.36
1-3M T-Bills (Cash, in %)	4.59	0.09	1.55	1.37	0.06
2YR Treasury Yield (in %)	4.18	1.18	1.33	2.14	0.27
10YR Treasury Yield (in %)	3.49	1.78	1.52	2.72	1.98
30Yr Treasury Yield (in %)	3.62	2.11	2.01	2.94	3.17
EURUSD	1.09	1.12	1.11	1.25	1.36
Crude Oil - WTI ($/bbl)	77	88	52	65	97
Gold ($/oz)	1941	1796	1588	1343	1662

Data as of January 31, 2023: Asset classes ranked by January performance.

DISCLOSURES

INTERNATIONAL INVESTING | International investing involves additional risks such as currency fluctuations, differing financial accounting standards, and possible political and economic instability. These risks are greater in emerging markets.

SECTORS | Sector investments are companies engaged in business related to a specific economic sector and are presented herein for illustrative purposes only and should not be considered as the sole basis for an investment decision. Sectors are subject to fierce competition and their products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

OIL | Investing in oil involves special risks, including the potential adverse effects of state and federal regulation and may not be suitable for all investors.

CURRENCIES | Currency investing is generally considered speculative because of the significant potential for investment loss. These markets are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.

GOLD | Gold is subject to the special risks associated with investing in precious metals, including but not limited to: price may be subject to wide fluctuation; the market is relatively limited; the sources are concentrated in countries that have the potential for instability; and the market is unregulated.

FIXED INCOME | Fixed-income securities (or “bonds”) are exposed to various risks including but not limited to credit (risk of default of principal and interest payments), market and liquidity, interest rate, reinvestment, legislative (changes to the tax code), and call risks. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise.

US TREASURYS | US Treasury securities are guaranteed by the US government and, if held to maturity, generally offer a fixed rate of return and guaranteed principal value.

HIGH YIELD SECURITIES | High yield securities involve additional risks and are not appropriate for all investors.

SMALL-CAP STOCKS | Small-cap stocks involve greater risks and are not suitable for all investors.

DOMESTIC EQUITY DEFINITION

LARGE GROWTH | **Russell 1000 Growth Total Return Index:** This index represents a segment of the Russell 1000 Index with a greater-than-average growth orientation. Companies in this index have higher price-to-book and price-earnings ratios, lower dividend yields and higher forecasted growth values. This index includes the effects of reinvested dividends.

SMALL GROWTH | **Russell 2000 Growth Total Return Index:** This index represents a segment of the Russell 2000 Index with a greater-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000.

LARGE BLEND | **Russell 1000 Total Return Index:** This index represents the 1000 largest companies in the Russell 3000 Index. This index is highly correlated with the S&P 500 Index. This index includes the effects of reinvested dividends.

SMALL BLEND | **Russell 2000 Total Return Index:** This index covers 2000 of the smallest companies in the Russell 3000 Index, which ranks the 3000 largest US companies by market capitalization. The Russell 2000 represents approximately 10% of the Russell 3000 total market capitalization. This index includes the effects of reinvested dividends.

LARGE VALUE | **Russell 1000 Value Total Return Index:** This index represents a segment of the Russell 1000 Index with a less-than-average growth orientation. Companies in this index have low price-to-book and price-earnings ratios, higher dividend yields and lower forecasted growth values. This index includes the effects of reinvested dividends.

SMALL VALUE | **Russell 2000 Value Total Return Index:** This index represents a segment of the Russell 2000 Index with a less-than-average growth orientation. The combined market capitalization of the Russell 2000 Growth and Value Indices will add up to the total market cap of the Russell 2000. This index includes the effects of reinvested dividends.

FIXED INCOME DEFINITION

AGGREGATE BOND | **Bloomberg US Agg Bond Total Return Index:** The index is a measure of the investment grade, fixed-rate, taxable bond market of roughly 6,000 SEC-registered securities with intermediate maturities averaging approximately 10 years. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

MUNICIPAL | **Bloomberg Municipal Total Return Index:** The index is a measure of the long-term tax-exempt bond market with securities of investment grade (rated at least Baa by Moody's Investors Service and BBB by Standard and Poor's). This index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds.

US INDEXES AND EQUITY SECTORS DEFINITION

DOW JONES INDUSTRIAL AVERAGE (DJIA) | The **Dow Jones Industrial Average (DJIA)** is an index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ.

S&P 500 | The **S&P 500 Total Return Index:** The index is widely regarded as the best single gauge of large-cap U.S. equities. There is over USD 7.8 trillion benchmarked to the index, with index assets comprising approximately USD 2.2 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

INTERNATIONAL EQUITY DEFINITION

EMERGING MARKETS EASTERN EUROPE | **MSCI EM Eastern Europe Net Return Index:** The index captures large- and mid-cap representation across four Emerging Markets (EM) countries in Eastern Europe. With 50 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS ASIA | **MSCI EM Asia Net Return Index:** The index captures large- and mid-cap representation across eight Emerging Markets countries. With 554 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS LATIN AMERICA | **MSCI EM Latin America Net Return Index:** The index captures large- and mid-cap representation across five Emerging Markets (EM) countries in Latin America. With 116 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

EMERGING MARKETS | **MSCI Emerging Markets Net Return Index:** This index consists of 23 countries representing 10% of world market capitalization. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 23 countries.

PACIFIC EX-JAPAN | **MSCI Pacific Ex Japan Net Return Index:** The index captures large- and mid-cap representation across four of 5 Developed Markets (DM) countries in the Pacific region (excluding Japan). With 150 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

JAPAN | **MSCI Japan Net Return Index:** The index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 319 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

FOREIGN DEVELOPED MARKETS | **MSCI EAFE Net Return Index:** This index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is available for a number of regions, market segments/sizes and covers approximately 85% of the free float-adjusted market capitalization in each of the 21 countries.

EUROPE EX UK | **MSCI Europe Ex UK Net Return Index:** The index captures large and mid cap representation across 14 Developed Markets (DM) countries in Europe. With 337 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across European Developed Markets excluding the UK.

MSCI EAFE | The **MSCI EAFE** (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations.

COMMODITY DEFINITIONS

US DOLLAR INDEX | The US dollar index (USDX) is a measure of the value of the US dollar relative to the value of a basket of currencies of the majority of the US's most significant trading partners. This index is similar to other trade-weighted indexes, which also use the exchange rates from the same major currencies.

BLOOMBERG COMMODITY INDEX | Bloomberg Commodity Index is a commodity group sub index of the Bloomberg CITR. The index is composed of futures contracts on crude oil, heating oil, unleaded gasoline and natural gas. It reflects the return on fully collateralized futures positions and is quoted in USD.

BLOOMBERG INDUSTRIAL METALS INDEX | Bloomberg Industrial Metals Index is composed of futures contracts on aluminum, copper, nickel and zinc. It reflects the return of underlying commodity futures price movements only. It is quoted in USD.

BLOOMBERG SOFTS INDEX | Bloomberg Softs Index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on coffee, cotton and sugar. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG PRECIOUS METALS INDEX | Bloomberg Precious Metals index is a commodity group sub index of the Bloomberg CI. It is composed of futures contracts on gold and silver. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

BLOOMBERG GRAINS INDEX | Bloomberg Grains Index is a commodity group subindex of the Bloomberg CI. It is composed of futures contracts on corn, soybeans and wheat. It reflects the return of underlying commodity futures price movements only and is quoted in USD.

FOREX SPOT RATE| The forex spot rate is the current exchange rate at which a currency pair can be bought or sold. It is the prevailing quote for any given currency pair from a forex broker.

S&P CORELOGIC CASE-SHILLER 20-CITY COMPOSITE HOME PRICE INDEX | The **S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index** seeks to measures the value of residential real estate in 20 major U.S. metropolitan areas: Atlanta, Boston, Charlotte, Chicago, Cleveland, Dallas, Denver, Detroit, Las Vegas, Los Angeles, Miami, Minneapolis, New York, Phoenix, Portland, San Diego, San Francisco, Seattle, Tampa and Washington, D.C.

INTERNATIONAL DISCLOSURES

DATA SOURCES:

FactSet, as of 1/31/2023

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