First Trust

Weekly Market Commentary

Week Ended December 23, 2022

US Economy and Credit Markets			
Yields and Weekly Changes:			
3 Mo. T-Bill:	4.283 (3.3 bps)	Bond Buyer 40 Yield:	4.60 (+12 bps)
6 Mo. T-Bill:	4.631 (0.7 bps)	Crude Oil Futures:	79.56 (+5.27)
1 Yr. T-Bill:	4.626 (6.4 bps)	Gold Spot:	1,798.20 (+5.12)
2 Yr. T-Note:	4.321 (14.3 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	4.087 (17.9 bps)	US High Yield:	8.72 (+13 bps)
5 Yr. T-Note:	3.857 (23.3 bps)	BB:	7.05 (+11 bps)
10 Yr. T-Note:	3.747 (26.5 bps)	B:	9.07 (+12 bps)
30 Yr. T-Bond:	3.820 (27.5 bps)		

Yields sharply rose as global asset prices declined after Jerome Powell's hawkish tone at the Federal Reserve's December 14th meeting lingered last week. On Tuesday, the Bank of Japan surprised markets around the world by announcing the central bank will increase the 10-year bond yield target to 0.50% from its previous limit of 0.25%. Later in the week, Japan's inflation data showed further acceleration to the fastest pace since 1981 creating speculation that the bank and others around the world will surprise with further policy changes in 2023. The week's economic data was mixed. December consumer confidence surveys from the Conference Board and University of Michigan showed economic sentiment is higher than was expected. Personal income rose 0.4% in November as higher-than-expected wage growth continues to fuel inflation. The Fed's preferred measurement of inflation – the PCE Core Deflator – increased 4.7% year-over-year compared to the 4.6% expected. While the data shows encouraging signs of slowing prices for goods, prices for services continue to accelerate. Major economic reports (related consensus forecasts, prior data) for the upcoming week include Wednesday: November Pending Home Sales MoM (-1.0%, -4.6%); Thursday: December 24 Initial Jobless Claims (225k, 216k); Friday: December MNI Chicago PMI (40.0, 37.2).

US Equities			
Weekly Index Performance:		Market Indicators:	
DJIA:	33,203.93 (0.86%)	Strong Sectors:	Energy, Utilities
S&P 500:	3,844.82 (-0.17%)		Financials
S&P Midcap:	2,435.15 (0.78%)	Weak Sectors:	Comm. Services, Info Tech
S&P Smallcap:	1,160.68 (0.56%)		Cons. Discretionary
NASDAQ Comp:	10,497.86 (-1.93%)	NYSE Advance/Decline:	961/2,140
Russell 2000:	1,760.93 (-0.12%)	NYSE New Highs/New Lows:	31/178
		AAII Bulls/Bears:	20.3%/52.3%

The S&P 500 Index was relatively flat last week, losing only 0.2%, after two consecutive weeks of drops greater than 2%. The month of December has been challenging as the final month of the year typically sees a 1.5% rise in the S&P 500 while currently it is down nearly 6%. Tech stocks have had their worst December since the bottom of the Dot Com Bubble crash in 2002. The week saw a series of strong economic data setting up hawkish moves from the Fed while other developed nation central banks hiked rates in a change of face. On Tuesday, the Bank of Japan announced a hike on the interest rate cap that it had previously held near zero for the past five years. Ripple effects were felt through US equities as one of the final holdouts of easy monetary policy capitulated to the rising inflation that has spared no country. Third quarter US GDP received its final revision which surprised to the upside although many economists expected a downward revision. The 3.2% final number beat by 0.3% and added further evidence to the strong backdrop against which the Fed will justify bringing rates higher to slow down the economy and inflation. Markets dropped sharply on Thursday as various Fed officials casted doubt on the chances of a rate cut in 2023 and mentioned that a rallying equity market would only reaffirm the validity of sustaining higher rates. Economists surveyed by Bloomberg currently expect a recession in 2023 with a 70% probability which is double the probability from the survey at the beginning of 2022. The top sector in the S&P 500 last week was Energy while the bottom sector was Consumer Discretionary. Energy stocks were fueled by another weekly rally in the price of oil as several refineries in Texas had to pause due to inclement weather. Winter storm Elliott brought frigid temperatures across the country and increased energy consumption while Russia also threatened a cut in production in response to sanctions. Consumer Discretionary was brought down by Tesla (**TSLA**, -18.0%) which issued discounts on two of its top selling models in a sign of demand weakness while CEO Elon Musk continues to grapple with confusion over the future leadership of Twitter. The best performing stock in the S&P 500 was Nike (**NKE**, +9.7%) which rebounded from a sharp downturn before releasing better than feared earnings on Tuesday which included elevated sales guidance for 2023 due to improving outlook in China and improving inventory management. In the coming holiday-shortened week, markets will close the books on 2022, likely the first calendar year since 2018 to book a loss.