

## Climate

After suffering their worst returns in over a decade, the broader equity and fixed income markets reversed course in January. The S&P 500 Index and the tech-heavy Nasdaq Composite Index had their best starts to the year since 2009 and 2001, respectively. Fixed income prices shared in the recovery. Each of the major bond indices we track posted positive total returns for the month (see the “Fixed Income” table to the left). While this is encouraging, not all of the news is positive. We are currently in the middle of earnings season, and several major companies have reported weaker-than-expected numbers. Consensus earnings estimates have been declining since late last year and continue to do so (see the “Stock Market” section below). Not only that, but recent commentary by Federal Reserve (“Fed”) Chairman Jerome Powell took a cautionary tone regarding how long the Fed may need to keep rates elevated. Current jobs data appears to support his outlook. One thing has not changed at the start of 2023, and it is this: all eyes remain on the Fed.

## Stock Market

The S&P 500 Index (“index”) closed January 2023 at 4,076.60, 15.01% below its all-time closing high of 4,796.56 on 1/3/22, according to Bloomberg. The S&P MidCap 400 and S&P SmallCap 600 Indices stood 8.87% and 13.62%, respectively, below their record closing highs as of 1/31/23. In January 2023, the S&P 500 Index posted a total return of 6.28%. Eight of the eleven major sectors that comprise the index registered positive total returns for the month. The top-performer was Consumer Discretionary, up 15.02%, while the worst showing came from Utilities, down 2.00%. The S&P 500 Index posted a total return of -8.23% over the trailing 12-month period ended 1/31/23. Six of the eleven major sectors were up on a total return basis. The index’s top performer was Energy, up 42.80%, while the worst showing came from Communication Services, down 26.61%. While we don’t often mention it here, it is worth noting that the tech-heavy Nasdaq Composite Index rose at a blistering pace in January, posting a total return of 10.73%. Companies appear to have taken advantage of the depressed valuations they experienced in 2022 to repurchase shares. Despite the newly implemented 1% excise tax on share repurchases, data from Birinyi and Associates revealed that stock buybacks announced by U.S. companies more than tripled year-over-year in January, surging to a record \$132 billion in the month, according to Bloomberg. While the surge in equity prices offered a respite for weary investors in January, earnings estimates have been trending downward and strategists continue to forecast a relatively flat return for the equity markets this year. Recently, Bloomberg’s consensus 2023 year-over-year earnings growth rate estimates for the S&P 500 Index turned negative, coming in at -1.10%. The current estimates represent a staggering 11.19 percentage point decline from when they stood at 10.09% on 1/14/22. A Bloomberg survey of 24 equity strategists found that their average 2023 year-end price target for the S&P 500 Index was 4,050 as of 1/20/2023, according to its own release.

## Bond Market

The yield on the benchmark 10-year Treasury Note (T-note) closed trading on 1/31/23 at 3.51%, down 37 basis points (bps) from its 3.88% close on 12/30/22, according to Bloomberg. The 3.51% yield stood 135 bps above its 2.16% average for the 10-year period ended 1/31/23. In January, the fixed income markets enjoyed a respite from the heavy price declines they experienced throughout much of 2022 (see “Fixed Income” table to the left). As many investors are likely aware, bond yields move inversely to prices. While January’s reversal in the rout of bond valuations was welcome, the real yield (yield minus inflation) of the U.S. 10-year T-note remains in negative territory, coming in at -2.99% as of 1/31/23. The U.S. is not the only country offering a negative real yield on their bonds. The 10-year notes for each of the member nations of the G7 currently pay negative real yields. In our view, the price improvements fixed income experienced in January are akin to the eye of a storm, and more pain may be in store for the global bond markets should central banks stay the course in their battle with inflation.

## Takeaway

After a brutal year, the equity and fixed income markets rallied to start 2023. In January, the S&P 500 Index and the Bloomberg U.S. Aggregate Bond Index posted total returns of 6.28% and 3.08%, respectively. For comparison, The S&P 500 Index and the Bloomberg U.S. Aggregate Bond Index suffered total returns of -18.13% and -13.01%, respectively, for the 2022 calendar year. In our view, some price discovery was warranted as valuations became attractive amid the sell-off. In the U.S., companies jumped to take advantage of depressed stock prices, announcing a record \$132 billion in share repurchase plans in January. Earnings estimates have been faltering, however, with Bloomberg’s latest consensus estimates calling for negative earnings growth in 2023. The U.S. fixed income and equity markets are at the mercy of the Fed, in our opinion. If further rate hikes are deemed necessary, bond prices could trend downward, and equity valuations will suffer as the discount rate adjusts accordingly, in our view. Tellingly, recent price improvements in the global bond market have been marred by the fact that real yields (yield minus inflation) remain in negative territory for many of the 10-year notes issued by governments around the world.

Open-End Net Fund Flows (\$)	12/22	11/22	YTD (Dec)
Equity	-94.80B	-65.56B	-471.75B
Taxable Bond	-37.04B	-24.60B	-393.28B
Municipal Bond	-16.12B	-9.92B	-148.38B
Hybrid	-18.13B	-8.08B	-103.51B
Taxable Money Market	92.53B	59.38B	-28.81B

Key Interest Rates/Yields	1/31/23	12/30/22	1/31/22
Federal Funds Target Rate	4.50%	4.50%	0.25%
2-Year T-Note	4.20%	4.43%	1.18%
5-Year T-Note	3.62%	4.01%	1.61%
10-Year T-Note	3.51%	3.88%	1.78%
Bond Buyer 40	4.31%	4.67%	3.60%

Commodities/U.S. Dollar	1/23	YTD	12 Mo.
U.S. Dollar Index (DXY)	-1.37%	-1.37%	5.76%
Refinitiv/CC CRB Excess Ret.	0.12%	0.12%	9.01%
Crude Oil/WTI (per Barrel)	-1.73%	-1.73%	-10.53%
Natural Gas (per million BTUs)	-40.02%	-40.02%	-44.93%
Gold Bullion (Ounce)	5.66%	5.66%	7.49%

## Total Return Performance

U.S. Stock Indices	1/23	YTD	12 Mo.
S&P 500	6.28%	6.28%	-8.23%
DJIA	2.93%	2.93%	-0.92%
Nasdaq 100	10.67%	10.67%	-18.23%
S&P MidCap 400	9.22%	9.22%	2.30%
Russell 2000	9.75%	9.75%	-3.41%
Russell 3000	6.89%	6.89%	-8.26%

U.S. Styles/Market Caps	1/23	YTD	12 Mo.
S&P 500 Growth	5.62%	5.62%	-18.63%
S&P 500 Value	7.00%	7.00%	3.05%
S&P MidCap 400 Growth	7.12%	7.12%	-3.19%
S&P MidCap 400 Value	11.40%	11.40%	7.86%
Russell 2000 Growth	9.95%	9.95%	-6.54%
Russell 2000 Value	9.54%	9.54%	-0.54%

Foreign Stock Indices (USD)	1/23	YTD	12 Mo.
MSCI World NET (Ex-U.S.)	8.20%	8.20%	-2.98%
MSCI Emerging Markets NET	7.90%	7.90%	-12.12%
MSCI Europe NET	8.67%	8.67%	-3.26%
MSCI BRIC NET	7.19%	7.19%	-13.94%
MSCI EM Latin America NET	9.87%	9.87%	11.46%
Nikkei 225	5.38%	5.38%	-8.54%

Bloomberg Fixed Income Ind.	1/23	YTD	12 Mo.
U.S. Treasury: Intermediate	1.60%	1.60%	-5.07%
GNMA 30 Year	3.29%	3.29%	-6.70%
Municipal Bond (22+)	4.71%	4.71%	-8.35%
U.S. Aggregate	3.08%	3.08%	-8.36%
Intermediate Corporate	2.52%	2.52%	-5.33%
U.S. Corporate High Yield	3.81%	3.81%	-5.22%
Global Aggregate	3.28%	3.28%	-11.69%
EM Hard Currency Aggregate	3.30%	3.30%	-11.46%

Sources: Bloomberg and Investment Company Institute

**Past performance is no guarantee of future results.** Historical performance figures for the indices are for illustrative purposes only and not indicative of any actual investment. Indices are unmanaged and an investor cannot invest directly in an index.

Data as of 1/31/23

Index	10-Yr. High Value	Date	10-Yr. Low Value	Date	Month-End Value	% Off High Value	YTD Return (USD)	Month-End Yield
S&P 500	4796.56	1/3/2022	1487.85	2/25/2013	4076.60	-15.01%	6.28%	1.66%
S&P 500 Growth	3423.28	12/27/2021	786.07	2/25/2013	2491.85	-27.21%	5.62%	1.39%
S&P 500 Value	1571.24	1/12/2022	693.33	2/25/2013	1533.07	-2.43%	7.00%	1.95%
S&P MidCap 400	2910.70	11/16/2021	1081.68	2/25/2013	2652.62	-8.87%	9.22%	1.71%
S&P MidCap 400 Growth	1427.19	11/16/2021	486.41	2/25/2013	1188.21	-16.74%	7.12%	1.34%
S&P MidCap 400 Value	908.15	11/15/2021	373.28	3/23/2020	901.92	-0.69%	11.40%	2.07%
S&P 100	2219.44	1/3/2022	671.75	2/25/2013	1816.29	-18.16%	6.40%	1.63%
DJIA	36799.65	1/4/2022	13784.17	2/25/2013	34086.04	-7.37%	2.93%	2.02%
Nasdaq 100	16573.34	11/19/2021	2700.97	2/25/2013	12101.93	-26.98%	10.67%	0.90%
Russell 2000	2442.74	11/8/2021	895.85	2/25/2013	1931.95	-20.91%	9.75%	1.49%
Russell 2000 Growth	1709.62	2/9/2021	511.62	2/25/2013	1198.24	-29.91%	9.95%	0.82%
Russell 2000 Value	2643.45	11/8/2021	1067.63	3/23/2020	2282.38	-13.66%	9.54%	2.17%
Russell 3000	2804.93	1/3/2022	885.47	2/25/2013	2367.61	-15.59%	6.89%	1.62%
MSCI World Net (ex U.S.) (USD)	7936.92	9/6/2021	4189.62	2/11/2016	7219.31	-9.04%	8.20%	3.23%
MSCI Emerging Markets Net (USD)	699.23	2/17/2021	296.25	1/21/2016	524.44	-25.00%	7.90%	3.06%
Ibovespa/Brazil (USD)	30422.00	2/1/2013	9077.09	1/21/2016	22245.64	-26.88%	5.77%	8.80%
RTS/Russia (USD)	1919.58	10/25/2021	628.41	1/20/2016	1001.23	-47.84%	3.43%	11.44%
S&P BSE 500/India (USD)	337.94	1/13/2022	95.89	9/3/2013	290.84	-13.94%	-2.22%	1.43%
Shanghai Composite/China (USD)	832.07	6/12/2015	317.13	6/27/2013	481.94	-42.08%	7.62%	2.62%
KOSPI/South Korea (USD)	2.93	6/16/2021	1.16	3/19/2020	1.97	-32.92%	11.07%	1.89%
Hang Seng (USD)	4241.01	1/26/2018	1871.10	10/31/2022	2786.54	-34.30%	9.90%	3.06%
MSCI Euro (USD)	1705.00	9/6/2021	865.50	3/18/2020	1492.94	-12.44%	11.54%	3.24%
S&P 500 Consumer Discretionary	1673.27	11/19/2021	391.33	2/25/2013	1156.22	-30.90%	15.02%	0.91%
S&P 500 Consumer Staples	841.99	4/20/2022	380.63	2/4/2013	770.91	-8.44%	-0.89%	2.59%
S&P 500 Energy	737.09	6/23/2014	179.94	3/18/2020	690.59	-6.31%	2.81%	3.67%
S&P 500 Utilities	394.81	9/12/2022	183.44	6/20/2013	351.17	-11.05%	-2.00%	3.03%
S&P 500 Financials	688.85	1/12/2022	232.26	2/25/2013	607.90	-11.75%	6.86%	1.97%
S&P 500 Banks	461.87	1/12/2022	162.83	2/25/2013	357.21	-22.66%	9.22%	2.93%
FTSE NAREIT All Equity REITs	980.08	12/31/2021	483.48	3/23/2020	781.72	-20.24%	10.07%	3.91%
S&P 500 Health Care	1664.59	4/8/2022	494.92	2/4/2013	1553.43	-6.68%	-1.87%	1.61%
S&P 500 Pharmaceuticals	1037.48	12/14/2022	397.26	2/4/2013	955.71	-7.88%	-5.30%	2.50%
NYSE Arca Biotechnology	6319.77	2/8/2021	1645.50	2/21/2013	5595.88	-11.45%	5.96%	0.28%
S&P 500 Information Technology	3107.46	12/27/2021	460.42	4/19/2013	2373.29	-23.63%	9.32%	1.03%
Philadelphia Semiconductor	4039.51	12/27/2021	412.73	1/31/2013	2921.92	-27.67%	15.46%	1.38%
S&P 500 Communication Services	288.46	9/1/2021	130.86	12/24/2018	182.04	-36.89%	14.50%	0.99%
S&P 500 Industrials	905.63	1/4/2022	346.22	2/25/2013	861.96	-4.82%	3.72%	1.67%
S&P 500 Materials	569.63	12/31/2021	234.68	4/15/2013	533.40	-6.36%	8.98%	2.06%
Philadelphia Gold & Silver	167.76	4/14/2022	38.84	1/19/2016	133.51	-20.42%	10.52%	2.00%
Refinitiv/CC CRB Excess Return	329.59	6/9/2022	106.29	4/21/2020	278.09	-15.63%	0.12%	N/A
ICE BofA Perpetual Preferred	319.67	9/22/2021	179.47	8/19/2013	295.53	-7.55%	8.82%	6.59%
ICE BofA U.S. High Yield Constrained	522.13	12/28/2021	313.74	2/11/2016	481.48	-7.79%	3.91%	8.24%

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