

# Market Commentary

January 2023



- In January, equities staged a comeback, with the Nasdaq Composite Index leading the way as compared to the other major indices.
- While investors remain divided about whether the recent rally can persist, most agree that future market performance is greatly dependent on the Federal Reserve's (the Fed) ability to execute a soft landing.
- Job layoffs intensified in the New Year, with Big Tech companies such as Google, Microsoft, Meta and Amazon [collectively laying off more than 150,000 workers](#) in recent months.

## MARKET RETURNS AS OF JANUARY 31, 2023<sup>1</sup>

	Jan %	QTD %	YTD %	1 Year %	3 Year %	5 Year %	10 Year %
S&P 500 TR	6.28	6.28	6.28	-8.22	9.88	9.54	12.68
DJ Industrial Average TR	2.93	2.93	2.93	-0.92	8.68	7.77	11.98
NASDAQ Composite TR	10.72	10.72	10.72	-17.95	9.03	10.34	15.15
Russell 2000 TR	9.75	9.75	9.75	-3.38	7.51	5.54	9.36
MSCI EM GR	7.91	7.91	7.91	-11.73	1.77	-1.11	2.45
MSCI EAFE GR	8.11	8.11	8.11	-2.33	4.74	2.63	5.44
Bloomberg US Agg Bond TR	3.08	3.08	3.08	-8.36	-2.35	0.86	1.43

## MARKETS

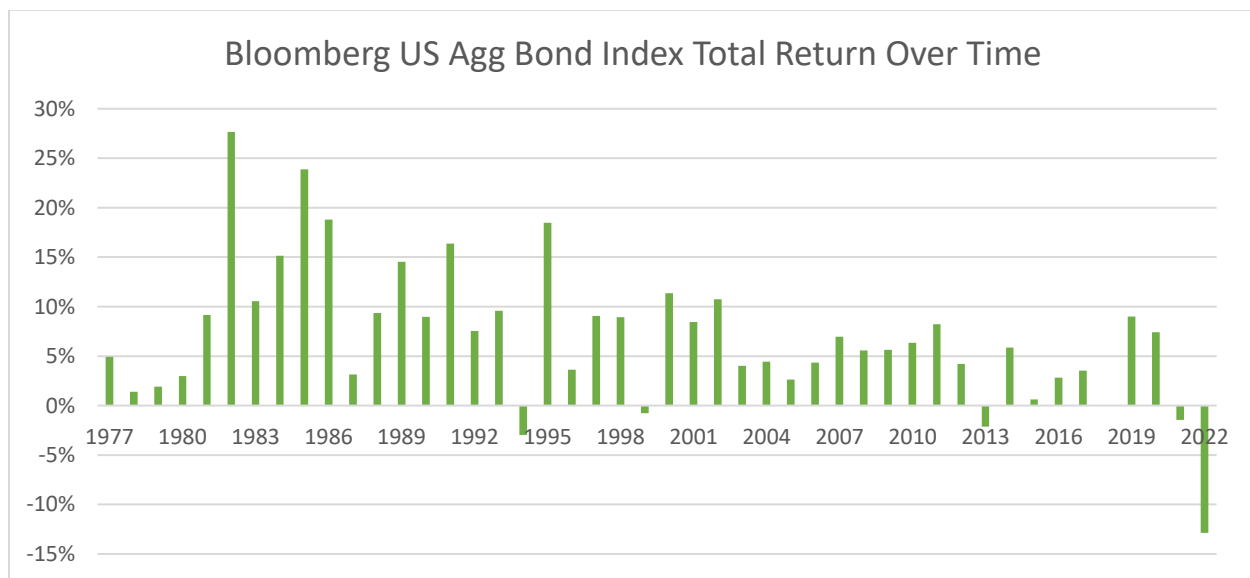
The New Year brought in a sense of optimism around equities, with seasonal trends working in the favor of the markets. The beginning of the year means that tax-loss harvesting season is finally behind us and investors can begin to allocate to new opportunities, pushing up the prices of assets across the board. This is often known as the "[January Effect](#)," and it seems that this year proved no different than the many years prior where this phenomenon took hold. The S&P 500 even capped the best January in four years, while the Nasdaq notched the best start of the year since 2001.

Interestingly, many of last year's [losers have led the way on Wall Street so far](#) this year. Big names such as Tesla (TSLA), Meta Platforms (META) formerly known as Facebook, and Netflix (NFLX) have surged in

recent weeks after plummeting in the prior year. And in turn, the Nasdaq Composite led for the month, rising 10.72%, followed by the S&P 500 up 6.28%, and the Dow Jones Industrial Average only up 2.93%.

Outside of the U.S., international and emerging markets had a strong month with the MSCI Emerging Markets Index ending the month up 7.91% and the MSCI Developed Markets Index up 8.11%.

And finally, bond markets also rose in January, following the worst performance on record in 2022 for the Bloomberg US Aggregate Bond Index.



Source: Morningstar

## THE FED AND RATES

On February 1<sup>st</sup>, the Fed agreed to raise interest rates by 25 bps and so, the terminal rate now sits at [4.50-4.75%](#). The Fed acknowledged a slowdown in inflation as a result of the rate hike increases so far, but believe it is too soon to declare victory over the fight and [anticipates “ongoing” increases will be appropriate](#). While the Fed projects that the terminal rate will rise to a top range of 5.00-5.25%, the market appears to be greatly divided over how many additional rate hikes we will see in 2023. Amongst other data, the two additional Consumer Price Index (CPI) and Job Openings and Labor Turnover Survey (JOLTS) reports between now and March will be critical in determining the Fed’s future decisions. Investors can expect substantial volatility between now and the next FOMC meeting in March.

## WHAT’S NEXT?

While it is impossible to predict what the state of the economy will be in 6-12 months, long-term investors can take advantage of short-term market volatility. Consider the following ideas:

- 1. Look outside the United States.** Three conditions that could lead to outperformance in international markets going forward. These factors include a weakening U.S. Dollar, low valuations of international assets, and strong forward growth estimates.

2. **Pick up yield from bonds.** 2022 helped reset valuations to a potentially attractive entry point vis a vis the last 20 years. Check out this new series called "[Bonds are Back](#)" that details the opportunity in the fixed income space.
3. **Incorporate alternatives to diversify traditional asset classes.** Asset classes such as hedged equity and real assets can help enhance returns, improve diversification, and/or manage risk in portfolios.

If you have questions on your portfolio positioning, or have any changes to your goals, risk tolerance, or time horizon, please reach out to schedule a conversation.



## FOOTNOTES:

### **Past performance is no guarantee of future returns.**

The graphs and charts in this commentary are for illustrative purposes only and not indicative of any actual investment. Index returns do not reflect any fees, expenses, or sales charges. Stocks are not guaranteed and have been more volatile than other asset classes. Historical returns were the result of certain market factors and events which may not be repeated in the future. Financial professionals are responsible for evaluating investment risks independently and for exercising independent judgement in determining whether investments are appropriate for clients.

The information here is not intended to constitute an investment recommendation or advice.

Sources:

1. Data from Morningstar. Returns over one year are annualized.

Returns are based on the S&P 500 Total Return Index, an unmanaged, capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under- or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index.

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