



MOE'S MARKET WRAP MINUTE

WEEK OF JANUARY 10, 2023

MOE'S MARKET MENTIONS

- The stock market is off to a decent start to 2023. Given the volatile year of 2022, expectations are for the market to be a little calmer in 2023. With the rise in interest rates taking a breather as well as the US dollar coming down in value, this reduces two major headwinds for investments that we saw in 2022.
- Volatility creates opportunities and we do see some opportunities in investments that generate yield such as shorter-term US Treasuries (<1 year), investment-grade corporate bonds (3-5 years), and shorter-term high-yield corporate bonds. These investments given their yield generation can help offset the expected continued volatility in the stock market.
- Market participants seem to be moving from worrying about inflation to now worrying about whether the tighter monetary policy will lead to a recession and specifically an earnings recession which would negatively impact the stock market. There is broad consensus that the European zone is in worse economic shape than the US economy and thus is more likely to go into recession. Given this outlook, we find it interesting that European stocks have outperformed US stocks over the past month. Of course, when comparing international stocks to US stocks, one must be mindful of the exchange rates i.e. a lower dollar by itself increases the value of international stocks which has been the case since November. However, if the dollar were to trend sideways for the next couple of months and yet European stocks continue to relatively outperform, we view that as a positive development implying that the market doesn't think Europe is headed for recession, and thus neither is the US economy. It is an indicator we will continue to closely watch.

CHART OF THE WEEK

Inflation data releases were the key economic data points to watch in 2022 since they had major implications for the US Federal Reserve's monetary tightening trajectory. This week's chart shows that one of the drivers of inflation – wage growth – has begun to roll over among all income levels and thus the market may not be as concerned about inflation data in 2023.

The key economic data point to watch in 2023 will be the job numbers. If the unemployment rate doesn't substantially rise - the lower inflation and steady economic environment may pave the way for a soft landing during this Fed tightening cycle.

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Moez Ansari is the President, Chief Investment Officer, and founder of Compak Asset Management. With over 35 years of investment experience, Moez evaluates the markets using industry-leading technical and fundamental analysis.

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