First Trust

Weekly Market Commentary

Week Ended February 17, 2023

US Economy and Credit Markets

Yields and Weekly Changes:

3 Mo. T-Bill:	4.786 (3.9 bps)	Bond Buyer 40 Yield:	4.61 (21 bps)
6 Mo. T-Bill:	5.008 (8.5 bps)	Crude Oil Futures:	76.34 (-3.38)
1 Yr. T-Bill:	4.970 (8.6 bps)	Gold Spot:	1,842.36 (23.21)
2 Yr. T-Note:	4.617 (9.9 bps)	Merrill Lynch High Yield Indices:	
3 Yr. T-Note:	4.315 (11.4 bps)	US High Yield:	8.68 (22 bps)
5 Yr. T-Note:	4.029 (11.9 bps)	BB:	7.23 (23 bps)
10 Yr. T-Note:	3.815 (11.3 bps)	B:	8.86 (20 bps)
30 Yr. T-Bond:	3.869 (9.6 bps)		

Last week's economic reports were widely anticipated and included multiple readings on inflation. In the December Press Conference, following the Federal Reserve Committee's decision to raise interest rates by 50 bps, Chairman Powell noted that "The inflation data received so far for October and November show a welcome reduction in the monthly pace of price increases." The Fed's indicated willingness to be 'data dependent' on inflation readings has the market particularly sensitive to reporting on inflation reports. January's CPI was reported last Tuesday and matched expectations of a 0.5% increase and up 6.4% year-over-year. This report continued a trend of falling inflation, albeit "core" remains elevated relative to falling goods inflation. Staying on the inflation trend, Friday saw the Producer Price Index information from January release which was elevated relative to expectations and up 6% from the prior year. Taken together, the week saw higher yields across the curve with a 4% coupon being attained by the 5 Yr. T-Note. Other data reported last week included a rise in January retail sales, surprising to the upside, unchanged industrial production for January and a fall in January Housing Starts as higher mortgage rates continue to weigh on affordability. Major economic reports (related consensus forecasts, prior data) for the upcoming holiday-shortened week include Tuesday: February preliminary S&P Global US Manufacturing PMI (47.4, 46.9), January Existing Home Sales (4.10m, 4.02m); Wednesday: February 17 MBA Mortgage Applications (n/a, -7.7%); Thursday: 4Q 2022 GDP Annualized QoQ (2.9%, unch.) and February 18 Initial Jobless Claims (198k, 194k); Friday: January Personal Income (1.1%, 0.2%), January Personal Spending (1.3%, -0.2%), January New Home Sales (620k, 616k) and University of Michigan Sentiment February final reading (66.4, unch.).

US Equities

Weekly Index Performance:		Market Indicators:	
DJIA:	33,826.69 (0.02%)	Strong Sectors:	Cons. Discretionary, Utilities
S&P 500:	4,079.09 (-0.2%)		Cons. Staples
S&P Midcap:	2,666.12 (1.05%)	Weak Sectors:	Materials, Real Estate
S&P Smallcap:	1,282.52 (1.38%)		Energy
NASDAQ Comp:	11,787.27 (0.63%)	NYSE Advance/Decline:	1,611/1,460
Russell 2000:	1,946.36 (1.47%)	NYSE New Highs/New Lows:	42/15
		AAII Bulls/Bears:	34.1%/28.8%

A week that began with optimism ultimately ended with the S&P 500 down 0.3% as Fed officials talked down the market from believing in an early end to interest rate hikes. Tuesday was probably the most impactful day of the week as January CPI numbers were released. The 6.4% topline gain was a slight decrease from the 6.5% rate observed in December and continued the narrative that inflation is on its way down from peaking in June of 2022. Core CPI came down as well by the same amount as some economists point to a new definition of "super core" CPI which excludes housing and reduced more quickly than the other measures. Other data from the week that made waves was weak survey expectations of US household income growth along with very strong US retail sales data. Together these indicate a continually strong economy with lower expected wage inflation. Fed officials were quick to talk down a market that was increasingly pricing in a dovish Fed as several members shared their belief that the Fed will need to increase the strength of rate raises from 25bps to 50bps in the next change. Such a move would be reverse the trend of softening rate hikes that has fueled much of the equity market year to date. Traders responded by raising their expectations for peak interest rates this year from 4.9% a couple of weeks ago to 5.3% and the S&P 500 saw losses in the last two days of the week. Sectors were mixed during the week with Consumer Discretionary performing the best and Energy performing the worst. Six of the seven worst performers in the S&P 500 came from Energy as the Biden administration announced a 26M barrel release from the Strategic Petroleum Reserve. The worst performing stock in the S&P 500 was Devon Energy (**DVN**, -16.1%) while the best performing stock was West Pharmaceutical Services (**WST**, +15.7%). The maker of syringes had a large COVID-19 bump which was expected to taper quickly but the company announced 2023 guidance that beat analyst estimates. Despite the short trading week next week, a significant amount of the remaining companies in the S&P 500 will release their quarterly earnings including retailers Dollar General, Dollar Tree, Costco, and Target.