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Global Market Commentary – A Colder February

U.S. Markets Retreat in February

Stock markets in the U.S. and around almost all of the world dropped in February, in very stark contrast to January, when almost all equity indices around the world advanced markedly.

The DJIA saw the largest retreat as it ended February at its lowest closing level of 2023. Surprisingly, the growth names continue to outperform the defensive names, as the Consumer Staples and Utilities sectors, two historically defensive sectors, recorded their third straight monthly loss. Further, all the major indices gave back a big chunk of January's gains – the S&P 500, NASDAQ and the Russell 2000 are dangerously close to moving negative YTD, while the DJIA is negative YTD.

Consistent with U.S. markets, performance in developed markets outside the U.S. was cold too – as 37 of the 38 developed markets tracked by MSCI were negative, with most losing between 2-3%. Performance in the emerging markets tracked by MSCI was even worse, as 41 of those 46 indices declined in February, with most losing more than 5%.

For the month of February:

- The DJIA lost 4.2%;
- The S&P 500 slid 2.6%;
- NASDAQ retreated 1.1%; and
- The Russell 2000 gave back 3.3%.

The themes that drove market performance in February all centered around inflation, the Fed, and the labor market, as recent inflation numbers hinted at a longer inflationary period and the labor market numbers suggested that the Fed would continue its pace of rate hikes further into the year.

Volatility, as measured by the VIX, increased significantly in February, beginning the month around 17 and ending the month just above 20, with most of the increase occurring after the middle of the month.

West Texas Intermediate crude was volatile this month too, starting February just under $79/barrel and ending the month just under $76/barrel, with a mid-month spike to $80.

Market Performance Around the World

Investors looking outside the U.S. saw poor performance too, as 37 of the 38 developed markets tracked by MSCI declined this month – with only the MSCI Nordic Countries Index advancing.

Performance for emerging markets was arguably worse, with 41of the 46 indices negative for the month, with 5 of those declining by more than 10%.

Index Returns	February 2023
MSCI EAFE	-2.23%
MSCI EURO	-0.75%
MSCI FAR EAST	-4.31%
MSCI G7 INDEX	-2.48%
MSCI NORTH AMERICA	-2.65%
MSCI PACIFIC	-4.96%
MSCI PACIFIC EX-JAPAN	-6.80%
MSCI WORLD	-2.53%
MSCI WORLD EX-USA	-2.47%

Source: MSCI. Past performance cannot guarantee future results

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Sector Performance Was Mostly Negative

For the month of February, performance was mostly negative, with 8 of the 11 S&P 500 sectors losing ground. Interestingly, February was almost the mirror opposite of January, where 8 of the 11 gained ground and more in line with December's performance, which saw 9 of the 11 retreat.

In addition, for February, the range in sector-returns was very wide, with the Consumer Discretionary sector adding less than 1% and the Energy sector losing almost 10% on the month.

And if you look carefully, investors will notice that there were a lot of big swings in just a month, as the Communication Services sector went from +14.22% to -4.52% and Real Estate sector went from +9.85% to -4.56%. That's volatility.

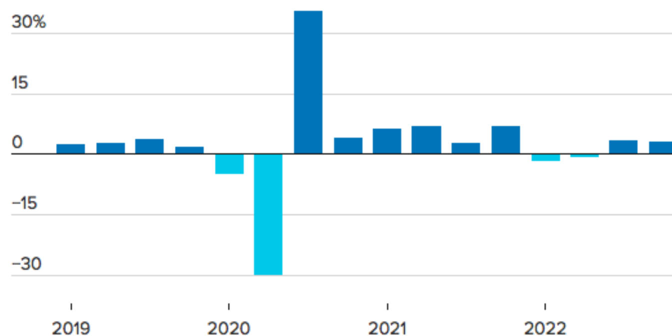
Here are the sector returns for the month of February and January (two very short time-periods):

S&P 500 Sector	January 2023	February 2023
Information Technology	+9.26%	+0.39%
Energy	+2.71%	-9.43%
Health Care	-2.03%	-4.34%
Real Estate	+9.85%	-4.56%
Consumer Staples	-1.06%	-0.87%
Consumer Discretionary	+14.99%	+0.48%
Industrials	+3.68%	+0.15%
Financials	+6.70%	-1.77%
Materials	+8.96%	-2.79%
Communication Services	+14.22%	-4.52%
Utilities	-2.04%	-4.51

Source: FMR

GDP Up 2.9% in 4th Quarter

The Bureau of Economic Analysis reported that real gross domestic product (GDP) increased at an annual rate of 2.7% in the fourth quarter of 2022, after increasing 3.2% in the third quarter.



Here is an explanation of the recent increase in GDP from the Bureau of Economic Analysis:

"The increase in real GDP in the fourth quarter reflected increases in private inventory investment, consumer spending, nonresidential fixed investment, federal government spending, and state and local government spending that were partly offset by decreases in residential fixed investment and exports. Imports decreased.

The increase in private inventory investment was led by manufacturing (mainly petroleum and coal products) as well as mining, utilities, and construction industries (led by utilities). The increase in consumer spending reflected an increase in services that was partly offset by a decrease in goods. Within services, the increase was led by health care as well as housing and utilities. Within goods, the leading contributor to the decrease was "other" durable goods (mainly jewelry). Within nonresidential fixed investment, increases in intellectual property products (mainly software) and structures were partly offset by a decrease in equipment. Within federal government spending, the increase was led by nondefense spending. The increase in state and local government spending primarily reflected an increase in compensation of state and local government employees.

Within residential fixed investment, the leading contributors to the decrease were new single-family construction and brokers' commissions. Within exports, a decrease in goods (led by nondurable goods excluding petroleum) was partly offset by an increase in services (led by travel as well as

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transport). Within imports, a decrease in goods (led by durable consumer goods) was partly offset by an increase in services (led by travel).

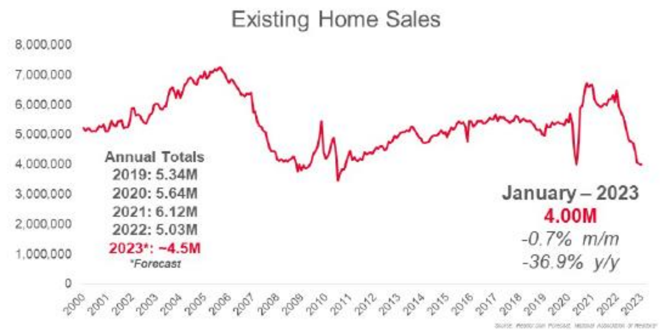
Compared to the third quarter, the deceleration in real GDP in the fourth quarter primarily reflected a downturn in exports and decelerations in consumer spending, nonresidential fixed investment, and state and local government spending. These movements were partly offset by an upturn in private inventory investment, a smaller decrease in residential fixed investment, and an acceleration in federal government spending. Imports decreased less in the fourth quarter than in the third quarter."

Existing Home Sales Drop for 12th Straight Month, Lowest Since 2010

The National Association of Realtors reported that existing-home sales fell for the 12th straight month in January. In addition, month-over-month sales were mixed among the four major U.S. regions, as the South and West registered increases, while the East and Midwest experienced declines. All regions recorded year-over-year declines.

Housing Highlights

- Existing-home sales waned for the twelfth consecutive month to a seasonally adjusted annual rate of 4.00 million. Sales slipped 0.7% from December 2022 and 36.9% from the previous year.
- The median existing-home sales price increased 1.3% from one year ago to $359,000.
- The inventory of unsold existing homes grew from the prior month to 980,000 at the end of January, or the equivalent of 2.9 months' supply at the current monthly sales pace.



Housing Bottoming Out?

"Home sales are bottoming out. Prices vary depending on a market's affordability, with lower-priced regions witnessing modest growth and more expensive regions experiencing declines. Inventory remains low, but buyers are beginning to have better negotiating power. Homes sitting on the market for more than 60 days can be purchased for around 10% less than the original list price."

- The median existing-home price for all housing types in January was $359,000, an increase of 1.3% from January 2022 ($354,300), as prices climbed in three out of four U.S. regions while falling in the West.
- This marks 131 consecutive months of year-over-year increases, the longest-running streak on record.
- Properties typically remained on the market for 33 days in January, up from 26 in December and 19 in January 2022. 54% of homes sold in January were on the market for less than a month.

Location, Location, Location

- Existing-home sales in the Northeast retracted 3.8% from December, down 35.9% from January 2022. The median price in the Northeast was $383,000, up 0.3% from the previous year.
- In the Midwest, existing-home sales slid 5.0% from the previous month, declining 33.3% from one year ago. The median price in the

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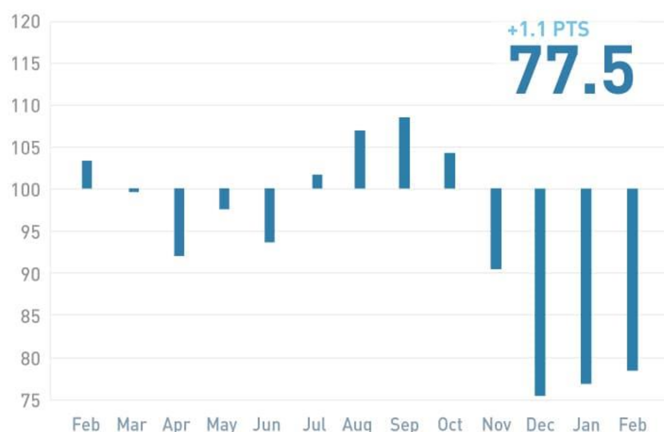
Midwest was $252,300, up 2.7% from January 2022.

- Existing-home sales in the South rose 1.1% in January from December, a 36.6% decrease from the prior year. The median price in the South was $332,500, an increase of 3.4% from one year ago.
- In the West, existing-home sales elevated 2.9% in January, down 42.4% from the previous year. The median price in the West was $525,200, down 4.6% from January 2022.

Investor Confidence Up

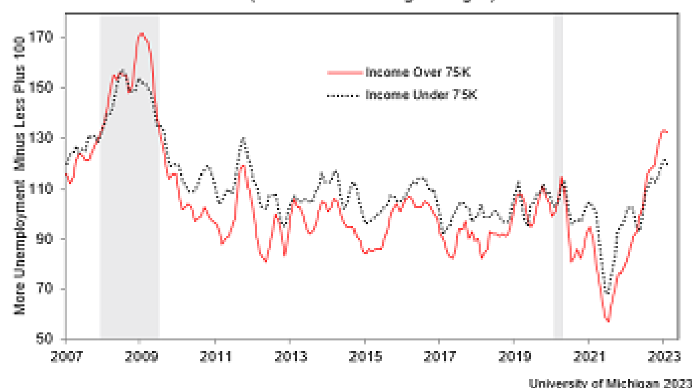
The State Street Investor Confidence Index edged up from last month:



Consumer Sentiment Up

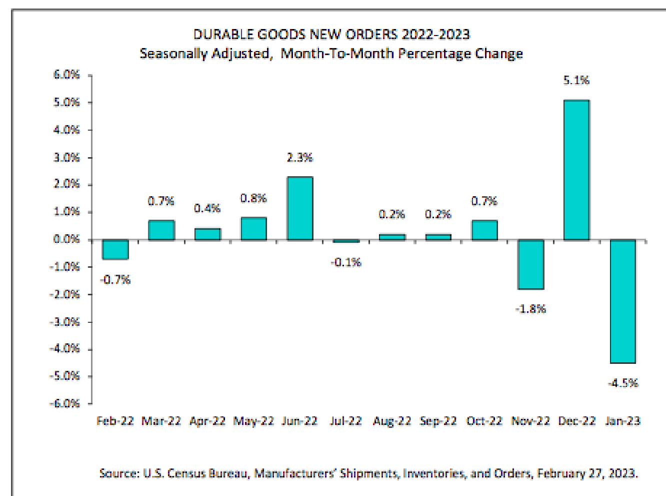
The University of Michigan reported that consumer sentiment rose a modest 3% above January. “After lifting for the third consecutive month, sentiment is now 17 index points above the all-time low from June 2022 but remains almost 20 points below its historical average. Consumers with larger stock holdings exhibited particularly large increases in sentiment. Overall, February’s reading was supported by a 12% improvement in the short-run economic outlook, while all other index components were essentially unchanged.

Year-ahead inflation expectations rebounded to 4.1% this month, from 3.9% in January and 4.4% in December. Consumers continued to exhibit considerable uncertainty over short-run inflation, and thus their expectations may be unstable in the months to come. Long-run inflation expectations remained at 2.9% for the third straight month and stayed within the narrow 2.9-3.1% range for 18 of the last 19 months.”



Durable Goods Orders Sink by 4.5%

The U.S. Census Bureau announced the January advance report on durable goods manufacturers’ shipments, inventories and orders:



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New Orders

- New orders for manufactured durable goods in January, down two of the last three months, decreased $13.0 billion or 4.5% to $272.3 billion. This followed a 5.1% December increase.
- Excluding transportation, new orders increased 0.7%. Excluding defense, new orders decreased 5.1%.
- Transportation equipment, also down two of the last three months, drove the decrease, $14.2 billion or 13.3% to $92.8 billion.

Shipments

Shipments of manufactured durable goods in January, down following sixteen consecutive monthly increases, decreased $0.2 billion or 0.1% to $277.2 billion. This followed a 0.4% December increase. Transportation equipment, down following ten consecutive monthly increases, drove the decrease, $1.6 billion or 1.7% to $92.2 billion.

Unfilled Orders

Unfilled orders for manufactured durable goods in January, up twenty-nine consecutive months, increased $0.3 billion or virtually unchanged to $1,157.0 billion. This followed a 1.1% December increase. Transportation equipment, up twenty-three of the last twenty-four months, drove the increase, $0.7 billion or 0.1% to $684.6 billion.

Inventories

Inventories of manufactured durable goods in January, down following twenty-three consecutive monthly increases, decreased $0.4 billion or 0.1% to $493.1 billion. This followed a 0.7% December increase. Transportation equipment, down following two consecutive monthly increases, led the decrease, $0.3 billion or 0.2% to $158.3 billion.

Capital Goods

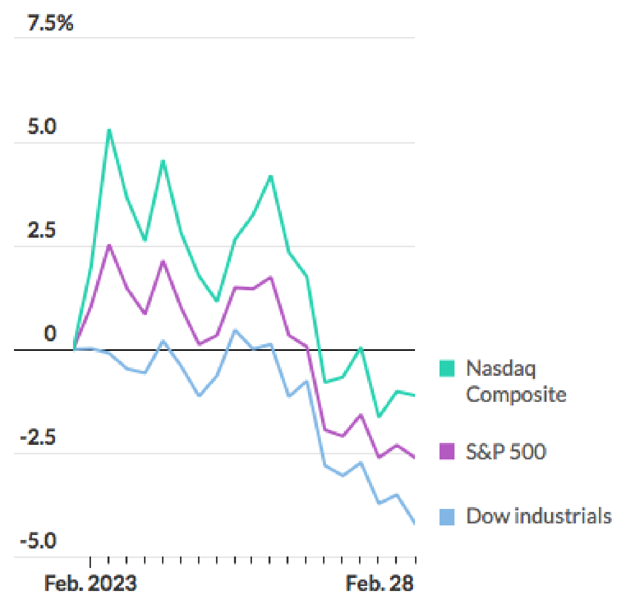
Nondefense new orders for capital goods in January decreased $15.2 billion or 15.3% to $83.9 billion. Shipments decreased $0.8 billion or 1.0% to $84.3 billion. Unfilled orders decreased $0.4 billion or 0.1% to $664.1 billion. Inventories decreased $0.5 billion or 0.2% to $218.5 billion. Defense new orders for capital goods in January increased $0.6 billion or 3.8% to $15.8 billion. Shipments decreased $0.2 billion or 1.2% to $14.9 billion. Unfilled orders increased $0.9 billion or 0.5% to $189.2 billion. Inventories increased $0.2 billion or 0.9% to $23.2 billion.

Outlook for the Rest of the Year?

Over the last 100 years, the DJIA was positive 58% during the month of March. And that number jumped to 64% when looking at the last 50 years and then 65% when looking at the last 20 years.

But investors are likely asking themselves whether January and February performance numbers for equities tended to impact these historical March numbers. The answer is not really. The reality is that whether the DJIA was up or down YTD heading into March had little impact on the returns for March.

And although February is typically the second worst month of the year (after September), let's hope that March reverses the recent trend.



Sources: bea.gov; nar.realtor; census.gov; umich.edu; fidelity.com; msci.com; nasdaq.com; wsj.com; morningstar.com

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