1919 INVESTMENT COUNSEL
Complexity to Clarity

Weekly Market Insights

January 30, 2023

A Winning Start!

Financial Markets

Equity markets have greeted the New Year with a remarkable rally. For the week, the Dow Industrials rose 1.81%, the S&P 500 rose 2.47%, and the NASDAQ led the field gaining 4.32%. One interesting observation is that the New Year gains are in reverse order of last year's losses, with the tech-heavy NASDAQ outperforming year to date after underperforming significantly last year. It will be interesting to see if the market will close the first month of the year with momentum. There is a lot to learn this coming week.

Economics

All eyes will be on the Federal Reserve with the Open Market Committee Meeting taking place Tuesday and Wednesday of this week. The question on all investors' minds is, will the Fed appear a bit more dovish, or will they keep their foot on the monetary brake? That question will be answered by Chairman Powell on Wednesday. If Powell's presentation does not portray confidence that their policy has been effective and that they can be less aggressive going forward, then this past month's gains may evaporate in a hurry.

Interestingly, the European Central Bank (ECB) and the Bank of Japan appear to be increasing the aggressiveness of their monetary tightening campaigns. This does make sense since they lagged behind when the Fed first started tightening, and has been made obvious by recent changes in currency valuations. The U.S. dollar has been falling relative to the Euro and Yen. Many investors worry about this and think it indicates broader weakness in the U.S. In fact, many are concerned about the U.S. trade deficit. As we have written in the past, a trade deficit is not really a bad thing, and, with relatively open monetary and trade systems, a cheaper currency encourages balanced trade. In very simple terms, if the dollar gets cheaper versus the Euro, Europeans look at U.S. goods as if they are on sale. This can be very positive for the United States.

We are still waiting to see what will happen with the debt ceiling, but we believe that somehow they will come to a last minute third quarter compromise. Unfortunately, this is an ongoing unresolved issue that will weigh on investors' minds, and the associated rhetoric will likely contribute to market volatility.

Along with what we have written about today, both China and the Ukraine pose very real potential problems for the global economy. We don't pretend to be very good at analyzing war, but we will have much more on China next week.

Conclusion

Investors appear fairly comfortable at the moment, but, all the built up confidence can disappear in the blink of an eye. This week, all depends on Chairman Powell and the Fed. Even though markets are doing well, we believe investor confidence is shallow. Under the circumstances, investors are wise to remain neutral in their portfolios.

A very interesting book about the Fed and its policy making is *21st Century Monetary Policy* by Ben S. Bernanke. It is not about the theory of monetary policy, but how monetary policy is made and how decision making has changed over the years.

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