CETERA® INVESTMENT MANAGEMENT

# MONTHLY RECAP

January 2023 Recap

## At-A-Glance

The S&P 500 capped its third positive month in the last four, posting its strongest monthly gain since last November. The benchmark is up 7.88% from its most recent low on Dec 28 and surged 14.55% since its Oct 12 bear market low.

The Nasdaq Composite climbed 10.72% last month, capping its best January performance since 2001 and strongest monthly gain since last July.

Amongst the three major U.S. indices, the Dow Jones Industrial Average gained the least, up 2.93% in January.

The Bloomberg blended index of long-term U.S. government and corporate bonds performed best in January, up 6.59%.

Gold futures advanced 6.5% last month, finishing at $1,945/ounce. January price momentum follows a 2022 surge in global gold demand, up 18% to 4,741 tons. Of that, central banks around the globe bought 1,136 tons, a 55-year high.

U.S. WTI crude oil prices fell 1.7% in January to $78.87/barrel. Due to warmer weather, front-month natural gas futures plummeted 40% in January to a 21-month low near $2.684 per million BTUs.

| Market Indices[1] | January | Year-to-Date |
|---|---|---|
| S&P 500 | 6.28% | 6.28% |
| Russell 3000 | 6.89% | 6.89% |
| Russell 2000 | 9.75% | 9.75% |
| MSCI EAFE | 8.10% | 8.10% |
| MSCI Emerging Markets | 7.90% | 7.90% |
| Bloomberg U.S. Aggregate Bond | 3.08% | 3.08% |
| Bloomberg U.S. Municipal Bond | 2.87% | 2.87% |
| Bloomberg U.S. Corporate High Yield | 3.81% | 3.81% |

[1]Morningstar Direct (all equity performance is total return, which includes reinvested dividends)

U.S. stocks ended January in upbeat fashion with the S&P 500 advancing nearly 6.3% to more than fully erase its 5.76% December decline and capped its strongest first-month start to a year since 2019. The broad market index ended its final January trading day up 1.47% amid a flurry of mixed 4Q earnings reports and the start of the Federal Reserve's latest FOMC rate and policy deliberations. With employment costs growing at just 1% in the fourth quarter (smallest pace in a year) investors are more confident the Fed will slow its February inflation-fighting interest rate hike to 0.25%.

Despite Wall Street's improving sentiment and rising hopes for a recession-avoiding soft landing, there remains an active debate about whether January's broad advances represent a tangible inflection point or yet another bear-market rally. January equity sentiment was driven largely by continuing signs of easing inflation and China's push to reopen after scaling back its strict COVID-zero restrictions. Generally better-than-feared corporate earnings and improving conditions in Europe also backstopped investor sentiment.

While there is no certainty whether January performance proves to be a major 2023 turning point, CFRA and S&P Global index officials observe that the adage of "so goes January, so goes the year," has rung true 87% of the time when January was positive, for an average gain of 15.9% for the year.

Fourth quarter corporate earnings are coming in mostly better than feared. At the end of January, 177 companies within the S&P 500 had reported 4Q results. Earnings are mostly beating low bar estimates by +2.4%, with 63% of companies topping analysts' projections. Current expectations are for revenue and EPS growth of 4.4% and -2.2%, respectively. Notably in a reversal from the prior quarter, domestically oriented S&P 500 companies are delivering faster EPS growth than their more globally positioned peers (+1.1% vs.-1.5%).

All equity styles of companies posted positive returns for the month. Quite notably, small-and mid-cap stocks outperformed large-caps and in reversal from December and 4Q performance trends growth-oriented companies outperformed their value counterparts. Recall that growth is negatively correlated to rising interest rates (as future expected profits decline in present value calculations) so the shift to growth outperformance is a telling sign of market expectations for interest rates to soon reach its terminal (peak) level.

**January**

| | Value | Core | Growth |
|---|---|---|---|
| Large | 5.18% | 6.70% | 8.33% |
| Mid | 8.08% | 8.30% | 8.73% |
| Small | 9.54% | 9.75% | 9.95% |

**YTD**

| | Value | Core | Growth |
|---|---|---|---|
| Large | 5.18% | 6.70% | 8.33% |
| Mid | 8.08% | 8.30% | 8.73% |
| Small | 9.54% | 9.75% | 9.95% |

Style Box Index returns above are represented by: Large Value (Russell 1000 Value), Large Core (Russell 1000), Large Growth (Russell 1000 Growth), Mid Value (Russell Mid Cap Value), Mid Core (Russell Mid Cap), Mid Growth (Russell Mid Cap Growth), Small Value (Russell 2000 Value), Small Core (Russell 2000), Small Growth (Russell 2000 Growth). Source: Morningstar Direct, total return based, including reinvested dividends.

In sector performance, eight of the 11 major groups delivered positive returns, but with widely divergent degrees of gains. Cyclical (economically sensitive) sectors delivered the strongest returns, including double digit percentage gains in Consumer Discretionary and Communication Services. In yet another reversal, these double-digit January gainers were the worst two performers for 2022. The three classic defensive sectors (Consumer Staples, Healthcare, and Utilities) lagged with negative returns for January.

| **Top Performers – January** | **Top Performers – YTD** [1] |
|---|---|
| Consumer Discretionary (+15.02%) | Consumer Discretionary (+15.02%) |
| Communication Services (+14.51%) | Communication Services (+14.51%) |
| Real Estate (+9.90%) | Real Estate (+9.90%) |
| **Bottom Performers – January** | **Bottom Performers – YTD** [1] |
| Consumer Staples (-0.89%) | Consumer Staples (-0.89%) |
| Healthcare (-1.87%) | Healthcare (-1.87%) |
| Utilities (-2.00%) | Utilities (-2.00%) |

[1] Morningstar Direct (all performance percentages are total return based, which include reinvested dividends)

Foreign equity markets outperformed the U.S. in January, with the MSCI EAFE Index (representing developed markets outside of the U.S. and Canada) jumping 8.10% to surpass the S&P 500 gain by over 1.8%. Germany and France, Europe's largest economies, led the EAFE advance, up 12.4% and 11.3% respectively. Emerging markets also outperformed the U.S. last month, returning nearly 8%. MSCI country indices for Mexico (+17.0%), Taiwan (+12.7%), and South Korea (+12.4%) led in January while India lagged (-2.99%).

Turning to fixed-income markets, Treasuries ended the month with the yield on benchmark 10-year Treasury notes at 3.53%, down a sharp 35 basis points (-0.35%) M/M. On a broader basis, investment-grade bonds advanced nearly 3.1% in January as measured by the Bloomberg U.S. Aggregate Bond Index. Bloomberg's U.S. High Yield Bond Index, representing holdings of below investment-grade (junk-rated) corporate bonds, outperformed, gaining 3.81% last month. Municipal bonds slightly trailed the U.S. Aggregate Bond index, climbing 2.87%.

This report is created by Cetera Investment Management LLC. For more insights and information from the team, follow @CeteraIM on Twitter.

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***Glossary***

The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.

The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holding have a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **Barclays U.S. Government Bond Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government). The US Government Index is a component of the U.S. Government/Credit and U.S. Aggregate Indices, and eligible securities also contribute to the multi-currency Global Aggregate Index. The U.S. Government Index has an inception date of January 1, 1973.

The **Bloomberg Commodity Index** is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components).

The **Cboe Volatility Index®** (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Midcap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P BSE SENSEX Index** is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

**West Texas Intermediate (WTI)** is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.