# Capital Market Review

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***February 15, 2023***

Markets are off to a strong start in 2023, especially growth stocks which struggled last year. The technology-heavy Nasdaq Index has climbed close to 14%, the small-cap Russell 2000 Index over 10%, and the large-cap S&P 500 Index rose almost 8%.

Although only six weeks into the new year, stock markets have traded in two clear patterns. The year started with markets reverting to the growth mindset investors had become accustomed to during the initial Covid rebound in 2020. Like in 2020, January's market action seemed to be driven by the Federal Reserve, and only this time, it was more investors' wishful thinking rather than action.

Markets came into 2023 pricing in the Federal Reserve to cut rates sometime during the year's second half. When the Fed's January meeting ended with a 0.25% rate hike, raising the Federal Funds Rate to 4.5%, the committee gave little hope to ending their rate hiking cycle in the near term, let alone begin cutting rates to meet market expectations later in the year.

The January jobs report was released just a few days after the Fed's meeting. If the Fed didn't do enough to squash the hopes of easing monetary policy in the months ahead, the jobs report took care of the rest. Last month, the U.S. economy added 517,000 jobs, beating economists' expectations by over 300,000 jobs and sending the unemployment rate to the lowest level since 1969 at 3.4%.

Paired with the jobs report, inflation is one of the top data points the Fed looks to each month, and January disappointed markets with a higher rate of growth than expected. The positive sign from January's inflation report is that rising prices are slowing from a year ago. However, it is not likely to be a smooth, linear decline to a lower rate, which many would like to see. Inflation is cooling in some areas and sticky in others, which leads the Fed to keep tighter monetary conditions longer than the market expected just a few weeks ago.

It isn't easy to take anything concrete from the year's first six weeks. So far, 2023 has seen excitement like 2020 and a rotation to more value-like stocks similar to 2022. While all investors would like January's returns to continue through the rest of the year, we are likely in store for another year of volatility. However, think of volatility as an opportunity as opposed to risk. The quick rotation in growth to value has created a divergence between the eleven sectors that make up stock market indexes. This gives active mutual fund managers, which Allegheny invests, opportunities to buy great companies poised to create value in volatile markets and deliver strong returns to investment portfolios.