February 2023 Market Review

In other contexts, a string of positive economic data, including reports on jobs and retail sales, would provide a tailwind for equities. In these inflationary times, however, the specter of the Federal Reserve's (the Fed) commitment to cooling the economy via higher interest rates has made any good news suspect.

The major stock market indices reflected this tension until a key measure of inflation provided the bad-enough news needed to seemingly convince the market that the Fed will continue toward a higher interest rate regimen. Thus February's hopes of building on January's gains ended, and the S&P 500 closed 2.61% down for the month.

Let's review our year-to-date numbers and get to the details.

	12/30/22 Close	2/28/23 Close*	Change Year to Date	% Gain/Loss Year to Date
DJIA	33,147.25	32,656.70	-490.55	-1.48
NASDAQ	10,466.48	11,455.54	989.06	+9.45
S&P 500	3,839.50	3,970.15	130.65	+3.40
MSCI EAFE	1,943.93	2,056.90	112.97	+5.81
Russell 2000	1,761.25	1,897.00	135.75	+7.71
Bloomberg Aggregate Bond	2,048.73	2,055.81	7.08	+0.35

*Performance reflects index values as of market close on Feb. 28, 2023. MSCI EAFE and Bloomberg Aggregate Bond reflect Feb. 27 closing values.

Balloons and semiconductors

Tensions between the United States and China remain high, strained additionally with the discovery of what U.S. officials described as a Chinese spy balloon floating over the United States. Further, the United States has made moves to curtail the growth of China's domestic advanced technology sector by signing agreements with the Netherlands and Japan to restrict the export of advanced semiconductors.

Unraveling the Russian energy knot

February brought additional evidence that Europe is successfully detangling itself from Russian natural gas, which had once been seen as one of the Kremlin's most important geopolitical trump cards. By the end of the month, prices fell to 18-month lows, meaning Europe has found a way forward with almost no Russian gas supply. Increased imports from the United States and Qatar, adaptations in the industrial sector and the expansion of renewable energy have enabled Europe to fill the gap.

Treasury yields rise
Bond yields reversed course as the stronger-than-expected economic data caused the market to remove rate cuts priced in the second half of the year, driving the 10-year Treasury yield back toward 4%. The two-year Treasury yield is also up to 4.81%, a new cycle high.

Debt ceiling talks continue
As the U.S. Treasury continues its "extraordinary measures" to keep paying the nation's debts, legislative and executive leaders continue to negotiate a resolution to the debt limit debate. Typically, one wouldn't expect a full resolution until nearer the point the Treasury runs out of runway, which may be as early as July.

The bottom line
A technical analysis of the equity markets shows characteristics of a market attempting to recover from bear conditions. Still, inflation and the response to it will likely remain the dominant market mover, and a lack of clarity will drive volatility. Short-term, expect this uncertainty to continue, but in the long view, it's worth noting that the economy here and globally has shown remarkable resilience.
Thank you for your continuing confidence in our guidance as we work together in support of your financial goals. If you have any questions about your investments, your financial plan or the state of the market, please feel free to reach out at any time – that's why we're here.

Sincerely,

Wealth Partners Alliance

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