

January 26, 2023

Good Afternoon,

This morning we got the first read on Q4 2022 GDP which showed the economy grew at 2.9% in Q4 - a stronger number than expected. We also saw further declines in inflation during the quarter. Is it possible that we will maintain a strong economy while getting inflation under control? That is the “Goldilocks” scenario currently fueling the market rally. Among analysts there is not a high degree of confidence that the Fed will engineer an economic soft landing, i.e., avoiding a recession in 2023.

While inflation is easing, consumer and employment data remain strong. The latter gives the Fed reason to raise the Fed Funds Rate once again next week. Consensus is we will see a ¼ % increase and some recognition that inflation is slowly getting under control. A rate increase of more than ¼ % will likely send stocks tumbling. In the meantime, the bond market has settled itself and the 10-Year Treasury yield remains close to 3.5% after peaking at 4.25% in mid-October. This is great news for bond investors.

Like Dorothy in the Wizard of Oz, the Buffalo Bills are not in Kansas (City) anymore. It will be Cincinnati in Kansas playing the KC Chiefs for the right to go to the Super Bowl. The Bengals pulled the curtain back and showed the Bills had no wizard powers last Sunday. They also lacked courage, heart, and brains. While they managed to beat Lions and Bears this year, they couldn't handle the tigers. I'll be cheering on the Bengals at home, on my couch, with my magic slippers. Toto too.

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As always, if you would like to discuss this or anything regarding current market conditions or your portfolio, feel free to contact me at any time.

Have a great week,

*Wade*

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