

The Rubber Meets the Road

Equity markets were mixed last week. The S&P 500 was -0.6%, the Dow was -2.7%, and the NASDAQ was +0.7%. The 10-year U.S. Treasury note yield decreased to 3.484% at Friday's close versus 3.511% the previous week.

The December Producer Price Index (PPI) was -0.5% month-to-month and core PPI (which excludes food, energy, and trade) was +0.1% month-to-month. Year-over-year, PPI was +6.2% and core PPI was +4.6%. Both Food and Energy have trended in a less inflationary direction, similar to the CPI report. The December Personal Consumption Expenditures (PCE) Price Index is scheduled for release on Friday. This is the Federal Reserve's preferred inflation indicator, and the year-over-year core data is important to understanding the Fed's leanings heading into the FOMC meeting on Jan 31st / Feb 1st.

Earnings reports start ramping up this week with 88 companies in the S&P 500 Index scheduled to report earnings. The current consensus for fourth quarter earnings for the S&P 500 Index is a 2.9% decline in year-over-year earnings on 4.1% revenue growth. For full-year 2022, current consensus is 5.3% year-over-year earnings growth on 11.2% revenue growth. The early look for full-year 2023 is a consensus expectation of 3.5% earnings growth on 2.1% revenue growth.

In our *Dissecting Headlines* section, we look at the January Effect in the stock market.

Financial Market Update

	Weekly Return	YTD Return		Weekly Return	YTD Return
S&P 500 Index	-0.6%	3.5%	Aggregate Bond Index	0.2%	2.7%
Dow Jones Industrial Average	-2.7%	0.8%	U.S. Dollar Index	-0.2%	-1.5%
NASDAQ 100	0.7%	6.2%	WTI Crude Oil	1.8%	1.3%
Russell 2000 (Small Cap Index)	-1.0%	6.1%	Gold	0.3%	5.6%
International Stocks (MSCI ex-US)	0.2%	7.4%	Real Estate (US REIT Index)	0.1%	6.0%

Sources: S&P Global, Thomson Reuters

Dissecting Headlines: January Effect

With the S&P 500 Index +3.5% year-to-date and the Russell 2000 Index of small cap stocks +6.1%, this month is shaping up as a good example of the January Effect. This seasonal market trend states that the stock market tends to trade higher in January and that small cap stocks typically outperform large cap stocks. From a market return basis, the effect holds up with historical returns of 1.1% for the S&P 500 Index and closer to 2.0% returns for the Russell 2000 Index.

Several causes are typically cited for the January Effect. First, when tax loss selling occurs in December, there is a possibility that those stocks are repurchased in January after the losses have been harvested. Second, some individuals may receive year-end bonuses or profit sharing contributions that are invested in January, adding to buying demand. Third, at the beginning of the year, institutional investors and fund managers are more prone to take risks, knowing they have time to make corrections if those risks don't pan out. This can especially be the case with riskier, less liquid small cap stocks. It can also be the case if those managers sold risky investments in December as a part of year-end "window dressing".

Given the steep market decline in 2022, conditions typically cited for the January Effect, especially among some beaten-down stocks in the Russell 2000 and NASDAQ, were in place to fulfill the January Effect here in early 2023.

The NovaPoint Capital Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is an endurance athlete and three-time IRONMAN finisher.



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).



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Allan has over 7 years of investment industry experience. Prior to joining NovaPoint, he worked at an independent RIA firm. Allan began his investment advisory career with Edward Jones. He earned his BA from the University of West Georgia.

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